APPENDIX 4E

Annual Report
For the year ended 31 December 2010

Name of entity:	**Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust)**

1 REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD

Current Reporting Period:	**12 months to 31 December 2010**
Previous Corresponding Period	12 months to 31 December 2009

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		2010 A$'000	2009 A$'000
2.1	Investment loss	down 84.97% to (7,208)	(45,550)
2.2	Change in net assets attributable to unitholders *	down 80.65% to (11,612)	(60,001)
2.3	Loss attributable to unitholders *	down 80.65% to (11,612)	(60,001)

* excludes loss attributable to minority interest

		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 2010 distribution - 31 December 2010

No distribution was declared or paid for the year ended 31 December 2010.

3 NET TANGIBLE ASSETS PER SECURITY

NTA per security as at 31 December 2010 (Ex distribution)	**$1.40**
NTA per security as at 31 December 2009 (Ex distribution)	$1.46

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 2010

Contents

DIRECTORS' REPORT

The Directors of The Trust Company (RE Services) Limited (formerly known as Permanent Investment Management Limited), 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 2010.

RESPONSIBLE ENTITY

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (ABN 45 003 278 831; AFSL 235150). On 22 June 2010, the Responsible Entity changed its name from Permanent Investment Management Limited in line with the new branding and visual identity of its parent entity, The Trust Company Limited. The registered office and principal place of business of the Responsible Entity is Level 4, 35 Clarence Street, Sydney, NSW 2000.

Investment Manager

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

Directors of the Responsible Entity

The Directors of The Trust Company (RE Services) Limited, during the year and until the date of this report are:

Name
John Atkin
Vicki Allen
David Grbin
Michael Britton

Sally Ascroft acted as an Alternate Director for David Grbin for the period 24 June 2010 to 1 August 2010.

PRINCIPAL ACTIVITIES

AIT is a registered managed investment scheme domiciled in Australia. AIT has exposure to a portfolio of leading 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

The Consolidated Entity is currently in a process of asset realisation.

Leverage Facility

The leverage facility outlined in Note 1(j) was fully paid out during the year to 31 December 2010.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS

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

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

	Consolidated	
	Year ended 31 December 2010 $'000	Year ended 31 December 2009 $'000
Change in net assets attributable to unitholders	(12,076)	(63,019)

VALUE OF ASSETS AND UNITS ISSUED

The total value of the AIT's assets as at year end is $ 184,511,000 (2009: $240,017,000). The total number of units issued as at 31 December 2010 is 130,692,470 (2009: 130,692,470).

DISTRIBUTION/ RETURN OF CAPITAL

There were no returns of capital to investors during the year (December 2009: $61.5 million).

Subsequent to the year end, AIT determined to pay a distribution of 38 cents per unit being a total of $49.7 million which was paid to unitholders on 18 February 2011.

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 repaying 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 (a type of account used to separate illiquid assets from other more liquid investments) arrangements 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 realized. 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 its holds. The risk management policies employed to manage these risks are discussed below.

(a) Credit risk

Credit risk is the risk that a counter party 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)

(i) Direct assets

AIT's single directly held investment is in EBI Income Fund (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.

EBI Income Fund's current exposure is largely to mezzanine debt in a variety of companies; it is undergoing an orderly liquidation and distributing cash to unitholders as it becomes available. The Consolidated Entity is exposed to the credit risk of these instruments. Laxey maintains regular contact with the manager of EBIIF in order to understand the nature and structure of the portfolio, and the associated risk.

(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.

(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 was managed by ensuring that all activities were transacted in accordance with investment and leverage 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 net of debt denominated in a foreign currency and transactional exposure arising from purchase or sale of securities.

(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's exposure to interest rate risk has been greatly reduced with the full repayment of the leverage facility during the period.

DIRECTORS' REPORT (CONTINUED)

INVESTMENT AND LEVERAGE GUIDELINES

AIT is no longer permitted to:

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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Trust Company (RE Services) Limited 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 Trust Company (RE Services) Limited do not hold any interest in AIT at 31 December 2010 (2009: no interest held).

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

No insurance premiums are paid out of AIT in regards to insurance cover to either The Trust Company (RE Services) Limited or the auditors of AIT. So long as the Directors and officers of The Trust Company (RE Services) Limited 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 2010, The Trust Company (RE Services) Limited had no interest in AIT (2009: Nil).

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

	Consolidated	
	2010	2009
	$'000	$'000
Responsible Entity fees	274	957
Former Responsible Entity fees	-	1,744
Laxey Management fees	1,579	3,059

Everest Capital Limited (former Responsible Entity) ceased to be the Responsible Entity for Alternative Investment Trust on 5 February 2009.

The Laxey management fees in 2009 includes a one off fee $614,255 which was paid to Laxey as a result of the Return of Capital made in August 2009.

DIRECTORS' REPORT (CONTINUED)

RESPONSIBLE ENTITY/INVESTMENT MANAGER FEES

The Trust Company (RE Services) Limited 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). 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, AIT determined to pay a distribution of 38 cents per unit, being a total of $49.7 million which was paid to unitholders on 18 February 2011.

Other than this matter and other matters as disclosed in the financial report, no other matters or circumstances have arisen since 31 December 2010 that have 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 (2009: 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.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

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

On behalf of the Board

Michael Britton
Sydney, 28 February 2011

CORPORATE GOVERNANCE

THE TRUST COMPANY (RE SERVICES) LIMITED

General

The directors of The Trust Company (RE Services) Limited consider that good quality corporate governance practices provide the framework for effective systems and business operations to deliver utmost value to AIT's unitholders and other stakeholders. The Trust Company (RE Services) Limited's role is to act in the best interests of the unitholders of AIT.

The Trust Company (RE Services) Limited's ultimate holding company is The Trust Company Limited ("**TCL**"). The operations of AIT are governed by the:

- Trust Deed and the Constitution;
- Corporations Act 2001;
- ASX Listing Rules;
- Compliance Plan;
- Relevant services agreements; and
- General law.

The Trust Company (RE Services) Limited is responsible for AIT's overall operation and administrative functions including the:

- preparation of financial statements, notices and reports; and
- monitoring of AIT's service providers including Link Market Services Limited ("registry provider"), Laxey, Citco Fund Services (Australia) Pty. Ltd ("administrator") and The Trust Company Limited ("custodian").

Structure

AIT has a revised investment strategy whereby the assets of AIT are being realised and the trust is in wind down. AIT has exposure to a portfolio of leading absolute return funds (Underlying Investment Portfolio) via a Swap with Macquarie Bank Limited (Leverage Facility Provider) and selected direct investments. Under the terms of the realisation of the AIT assets, the leverage from the Swap facility must be paid down before unitholders may receive any distributions from assets sold or redeemed (that are within the Swap). The Leverage facility has been paid out during the year.

Pursuant to the Investment Management Agreement between The Trust Company (RE Services) Limited and Laxey, the Investment Manager is responsible for the operational activities of the AIT, including the realisation of assets, the asset management, financial reporting and investor communications and meetings.

The Investment Manager initiates and monitors the realisation of assets and submits regular reporting to The Trust Company (RE Services) Limited on the results of those activities.

ASX Corporate Governance Principles

As a listed entity and a managed investment scheme, AIT is also required to comply with the ASX Listing Rules and provide a statement in AIT's annual report disclosing the extent to which The Trust Company (RE Services) Limited has followed the Corporate Governance Principles and Recommendations. Below, The Trust Company (RE Services) Limited addresses each of the eight principles for the year ended 31 December 2010. This corporate governance statement is current as at the date of this Annual Report.

CORPORATE GOVERNANCE (CONTINUED)

Principle 1

Lay solid foundations for management and oversight

Role of the board and management

The structure and role of the boards of both The Trust Company (RE Services) Limited and of Laxey are designed to provide maximum value to investors in terms of ensuring appropriate oversight of their relevant activities and, in particular, the activities of the Investment Manager given its key role in management and realisation of the assets of AIT. All activities are regularly reported to The Trust Company (RE Services) Limited by Laxey.

The Trust Company (RE Services) Limited has a constitution which sets out, amongst other things, the appointment and removal procedures for directors, board meeting requirements and remuneration policies. Internal procedures have been developed for:

- monitoring business risk;
- appropriate oversight of business units;
- compliance with regulatory requirements, scheme compliance plan and constitution; and
- monitoring of third party service providers.

The Trust Company (RE Services) Limited's directors, along with management, have the role of ensuring that The Trust Company (RE Services) Limited complies with its obligations as Responsible Entity of AIT. The Trust Company (RE Services) Limited's board (Board) meets monthly to consider client activities of its Responsible Entity services and any relevant compliance matters. The Trust Company (RE Services) Limited's management elevate relevant compliance matters to its Audit, Risk & Compliance Committee (ARCC).

Pursuant to the Investment Management Agreement the Investment Manager is responsible for the operational activities of AIT, including asset management, realisation of assets, financial reporting and investor communications and meetings. The Investment Manager and registry provider are also responsible for assisting The Trust Company (RE Services) Limited in handling any investor complaints.

The Investment Manager initiates and monitors the realisation of assets and submits regular reporting to The Trust Company (RE Services) Limited on the results of those activities.

The Trust Company (RE Services) Limited is accountable to unitholders of AIT. In addition, The Trust Company (RE Services) Limited is responsible for AIT's overall operation, its regulatory and compliance obligations, and its administrative functions.

The Trust Company (RE Services) Limited regularly reviews and monitors the performance of AIT's affairs and activities so that they are conducted in the best interest of unitholders. These functions include:

- maintaining high ethical and business standards;
- ensuring the preparation, review and approval of annual and half yearly financial statements, preparation of notices and reports to unitholders, ASX and other regulators;
- consultation with the Investment Manager;
- monitoring and responsibility for certain specialist external service providers to assist the Responsible Entity from time to time in the proper, efficient and timely delivery of services;
- compliance with a constitution of The Trust Company (RE Services) Limited that sets out amongst other things the appointment and removal procedures for the director's, meeting rules and requirements and disclosure procedure;
- maintaining internal procedures for monitoring business risk and ensuring appropriate oversight of AIT's compliance plan and constitution;

CORPORATE GOVERNANCE (CONTINUED)

Principle 1 (continued)

- empowering management of The Trust Company (RE Services) Limited to report compliance matters relating to AIT to the Board and ARCC;
- TCL, as the parent of The Trust Company (RE Services) Limited, providing executive directors, responsible managers and company secretarial functions for The Trust Company (RE Services) Limited. Those directors along with internal management have the ongoing task of ensuring The Trust Company (RE Services) Limited complies with its obligations as the Responsible Entity; and
- ensuring all available relevant information in connection with the AIT is discussed at meetings of the Board.

Principle 2

Structure the board to add value

Both The Trust Company (RE Services) Limited and Laxey add value through being completely independent of each other with no common directors and no related party interests between the two entities. This ensures no conflicts of interest when discretionary decisions are required of either entity.

The Trust Company (RE Services) Limited currently has four executive directors who meet monthly to consider the operational activities and financial performance of the Responsible Entity business. The directors are provided by The Trust Company (RE Services) Limited's parent company, TCL. The procedures for selecting a Chairman, powers of the Board, appointment, removal and remuneration of Directors, Board meeting requirements and other related matters are set out in The Trust Company (RE Services) Limited's constitution.

New director's are fully briefed on the terms and conditions of their appointment by TCL executives and undertake an induction program to familiarize themselves with The Trust Company (RE Services) Limited and its business operations.

As each The Trust Company (RE Services) Limited Director is a TCL executive, the ARCC is comprised of a majority of external members (non TCL executives) and has been established to meet the requirements of Chapter 5C of the Corporations Act. In addition, the independence of the external members meets the requirements of section 601JA(2) of the Corporations Act. TCL has structured itself so that The Trust Company (RE Services) Limited's role as Responsible Entity of AIT adds real value through its focus on compliance with the regulatory requirements and its overarching responsibility to act in the best interests of unitholders.

Principle 3

Promote ethical and responsible decision-making

The Trust Company (RE Services) Limited is committed to maintaining the highest standards of integrity with respect to its role as Responsible Entity and seeks to ensure all its activities in regard to AIT are undertaken with efficiency, honesty and fairness. The Trust Company (RE Services) Limited as well as the Investment Manager have various policies and procedures in addition to a Code of Conduct and Share Trading Policy that applies to all directors and employees without exception. All codes and policies are designed to promote integrity, responsibility, accountability and adherence to relevant legislation. They apply to the directors and officers of the Investment Manager, The Trust Company (RE Services) Limited as a member of the TCL group and Responsible Entity of AIT.

CORPORATE GOVERNANCE (CONTINUED)

Principle 4

Safeguard integrity in financial reporting

The Investment Manager in conjunction with the Fund Administrator ("CITCO") are responsible for maintaining the underlying accounting records of AIT. Deloitte Touche Tohmatsu is responsible for preparing the half year and annual financial statements for AIT. These financial statements are audited by an external auditor whose report is provided to the Board. The current auditor is Ernst & Young.

The Responsible Entity meets with CITCO, Laxey, Deloitte Touche Tohmatsu and Ernst & Young to discuss the audit plan and scope prior to each financial year end. The audit report is tabled for the Board's consideration and approval.

Both the Investment Manager and The Trust Company (RE Services) Limited review the financial statements and provide formal statements to the Board confirming that AIT's financial reports present a true and fair view, in all material aspects, of the AIT financial condition, and that operational results are in accordance with AIT's constitution and relevant accounting standards. In addition, they confirm that the statements are founded on a sound system of risk management and internal compliance and control which implements policies adopted by the Board.

Principle 5

Make timely and balanced disclosure

The Trust Company (RE Services) Limited and the Investment Manager have continuous disclosure procedures to ensure AIT's compliance with ASX Listing Rules and the Corporations Act. Service providers to AIT under outsourcing arrangements are required to adhere to the ASX listing rules in terms of continuous disclosure requirements and must report to The Trust Company (RE Services) Limited instances where a disclosure obligation is required. The Trust Company (RE Services) Limited has procedures in place to monitor the compliance of the Investment Manager and service providers with these requirements. The Company Secretary of The Trust Company (RE Services) Limited is responsible for disclosures to the ASX in relation to the continuous disclosure obligations of the AIT.

Principle 6

Respect the rights of unitholders

The Trust Company (RE Services) Limited is committed to providing timely and accurate information concerning the AIT to its unitholders. AIT's compliance plan and constitution further set out The Trust Company (RE Services) Limited's obligations and the rights of unitholders in this regard.

The Annual Report of AIT comprising the financial statements is sent to unitholders each year. The Annual Report includes the ASX Listing Rule disclosure requirements and although registered schemes are not required to hold meetings of unitholders, the constitution of AIT provides for such meetings if and when requisitioned by unitholders, the Investment Manager or The Trust Company (RE Services) Limited.

Under the Investment Management Agreement the Investment Manager is required to ensure any actions or decisions it makes does not breach the terms of AIT's constitution or any relevant law or transaction document in relation to AIT which could adversely affect rights of unitholders.

CORPORATE GOVERNANCE (CONTINUED)

Principle 7

Recognise and manage risk

Under the Investment Management Agreement the Investment Manager is required to ensure that all persons acting as representatives (including authorised representatives) and undertaking promotional activities in respect of AIT are continually trained and supervised in accordance with requirements of the relevant law or ASIC policy, that it has objectives, policies, procedures and controls in place which it deems appropriate to avoid internal management risks and that its agents are adhering to those objectives, policies, procedures and controls, and it will use its best endeavours to ensure that it complies with any legislative requirements directly applicable to the Investment Manager and its activities and it will notify The Trust Company (RE Services) Limited in writing immediately regarding any event which may trigger the enhanced disclosure provisions of the Corporations Act.

The Trust Company (RE Services) Limited values the importance of robust risk management systems and, with its parent TCL, has established an ARCC to support the compliance obligations of AIT with respect to its corporate governance and risk responsibilities.

The ARCC is comprised of a majority of external members skilled in the areas of audit, risk and compliance. The ARCC is responsible for the oversight of risk management and internal control systems for The Trust Company (RE Services) Limited. It reviews internal and external audit processes and monitors The Trust Company (RE Services) Limited's compliance with laws and regulations. The ARCC meets regularly with the TCL Executive Team, senior management and external advisers, and reports directly to the TCL and The Trust Company (RE Services) Limited Boards.

The Trust Company (RE Services) Limited has a formal risk management program in place which has been adopted from its parent entity, TCL. It is based on Standards Australia AS/NZS4360:2004-Risk Management Standard and includes policies and procedures to identify and address material financial and non-financial risks.

TCL also maintains an independent internal audit team who reports directly to ARCC and The Trust Company (RE Services) Limited Board if necessary.

Principle 8

Remunerate fairly and responsibly

Remuneration policies are in place to maintain and attract talented and motivated directors and employees. The policies are designed to improve the performance of TCL and its controlled entities. As TCL is the parent of The Trust Company (RE Services) Limited it provides executive directors and internal management for The Trust Company (RE Services) Limited as Responsible Entity. Directors and internal management of The Trust Company (RE Services) Limited are remunerated by TCL and not by AIT.

The Trust Company (RE Services) Limited's fees are set out in the constitution for AIT and product disclosure statement. Both The Trust Company (RE Services) Limited and the Investment Manager monitor all fees and expenses paid from AIT to ensure they are allowable under AIT documentation and within the prescribed fees disclosed to investors.

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 part of Isle of Man based Laxey Partners Ltd; Laxey Partners 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.

Trust Facts

(Parent entity, as at 31 December 2010)

• Gross Assets (GA):	AUD 179m
• Net Assets (NA):	AUD 177m
• Market Cap:	AUD 140m
• Units in Issue:	131m
• NTA / unit:	AUD 1.357
• Leverage Ratio (GA / NA):	1.01
• Debt Repaid in 2010:	USD 37m
• Debt Remaining at 31 Dec:	USD 0m
• % of GA in 'Side Pockets':	22.1%

Post Balance Sheet Events:

Capital Returns per unit:

• February 2011 Return:	AUD 0.38
• Total Returns since Feb 2009:	AUD 0.85

In August 2010, AIT finished repaying its debt, which, at its peak in January 2009, stood at USD 289m. Repayment cleared the way for AIT to make distributions to shareholders as under the revised terms of the Swap, AIT was unable to use cash from realisations within the Swap to make distributions to unitholders. AIT was further prevented from making distributions by a secondary swap agreement with BNP within the Macquarie Swap. There was no facility under this agreement for cash received from realisations to pass from the secondary swap to AIT until the swap's expiry at end December 2010. Despite prolonged efforts to negotiate an early release of the cash, the final offer received from BNP was not judged to be in unitholders' interests and the swap was allowed to run to expiry. Post 31 December 2010, the cash from within the BNP swap – USD 28m – has been received and has been put toward AIT's February 2011 Return of Capital.

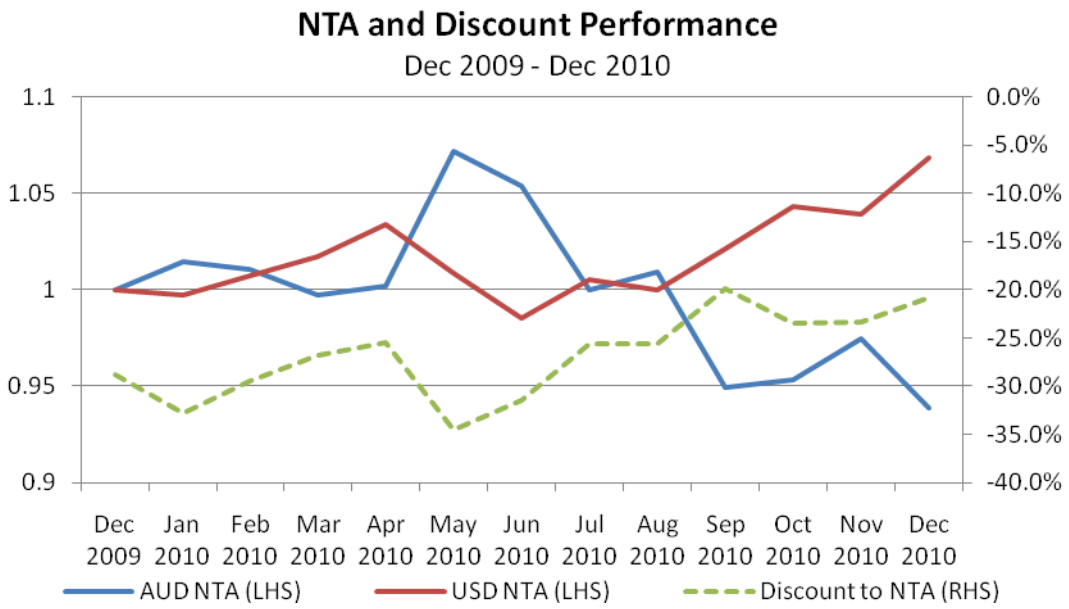
The Return of Capital of AUD 0.38 per unit for February 2011 was announced on 2 February 2011, with a payment date of 18 February 2011. This comprised a total of AUD 49.7m – 27% of AIT's gross assets at 31 December 2010. This brings the total distributions made to unitholders since the change of mandate to AUD 111.2m (or AUD 0.85 per unit) – representing approximately 71% of AIT's market value as at 31 January 2009 (or 37% of its unaudited net assets at that date). Future distributions will be made as sufficient cash builds up from ongoing realisations.

Investment Manager's Report (continued)

Fund Performance

The original portfolio of AIT was constructed to deliver an absolute return, and as a result, AIT's NAV does not track movements in global equity markets. Nevertheless on an underlying, USD basis, AIT's funds on average delivered a modest positive return for 2010 – in line with many major equity indices. This was due both to some positive revaluations amongst AIT's side pocketed investments as they recovered from the extreme writedowns of such illiquid assets in 2008 and 2009 as well as solid performance from some of AIT's main underlying funds.

The AUD and USD NTA performance (NTA's rebased to 1 at 31 December 2009), together with the discount performance of AIT from 31 December 2009 to 31 December 2010 is given below (unaudited NTA's are used for January to May and July to November).



Although AIT's NTA has decreased in AUD terms by -6.1% (from AUD 1.45 to AUD 1.36), it has increased in USD terms +6.9% (from USD 1.30 to USD 1.39). As the majority of AIT's assets report in USD this serves to highlight the detrimental effect of the USD-AUD exchange rate on AIT's performance. During the year the AUD strengthened in value by over 13% against the USD effectively lowering the value of AIT's underlying funds.

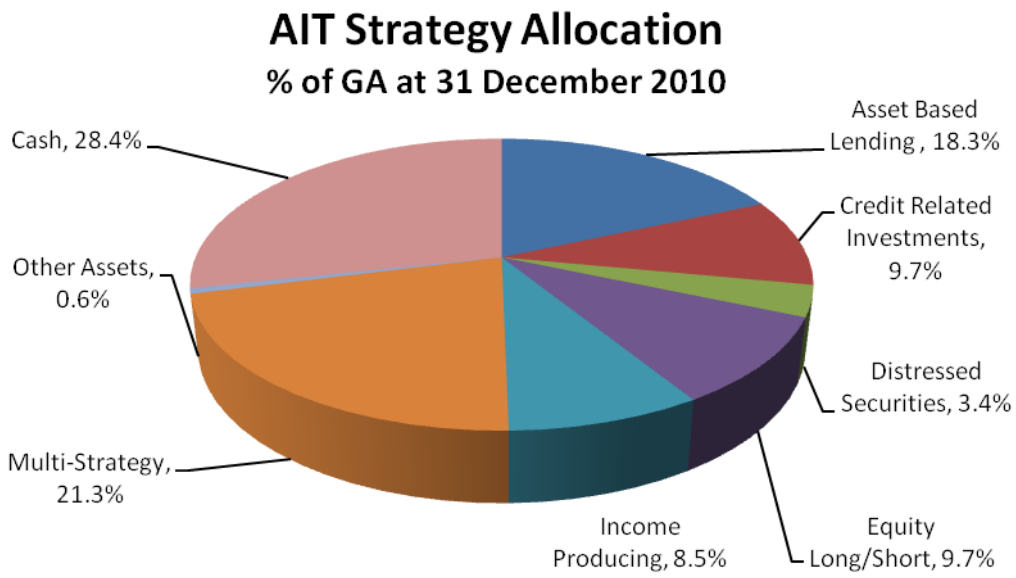
AIT's net currency exposure as at 31 December 2010 is 85% in USD reporting funds, assets and liabilities, and 15% in AUD reporting funds, assets and liabilities. Note that the NAVs of these funds may be affected by exchange rate movements in their underlying investments; of the two funds that do report in AUD – EARF and EBIIF – neither has a very large net currency exposure to the AUD and so on a see through basis AIT has an even lower net currency exposure to the AUD.

Meanwhile, AIT's share price to NTA discount has remained between 20% and 35% – stabilising between 20% and 25% for the last four months of the year. This compares favourably to the lows of over 50% at the end of 2008 and early 2009.

Investment Manager's Report (continued)

Portfolio Review

The chart below shows AIT's asset exposure as at 31 December 2010. An explanation of the cash is given below, followed by descriptions of AIT's major underlying funds and pertinent fund updates.



Cash held:

The above pie chart represents AIT's cash position as 28.4% of gross assets. This figure represents cash available to AIT for use in distributions and operations; it includes cash held outside the Swap, cash held within the Swap and cash held in the secondary BNP swap. Post 31 December 2010, cash held in the latter came through to the main Swap. As further redemption proceeds were received post December 2010, almost all of the above cash was used in the February 2011 Return of Capital.

AIT's Top Holdings as at 31 December 2010:

FUND NAME	STRATEGY	% OF GROSS ASSETS
Drawbridge Special Opportunities	Asset Based Lending	18.32%
ESL Investments	Equity Long/Short	9.72%
EBIIF	Income Producing	8.52%
Marathon Special Opportunity Fund	Credit Related Investments	5.16%
TPG-Axon Partners Offshore Ltd	Multi-Strategy	3.94%
Eton Park Overseas Fund Ltd	Multi-Strategy	3.93%
GSO Special Situations Overseas fund	Credit Related Investments	2.74%
Och-Ziff Global Special Investments	Multi-Strategy	2.73%
Everest Absolute Return Fund	Multi-Strategy	2.71%
Cerberus International Ltd	Distressed Securities	1.86%
TOTAL		59.63%

Investment Manager's Report (continued)

The above holdings constitute 59.6% of AIT's portfolio and all but EBIIF are held within the Macquarie Swap. The remainder of the portfolio consists of numerous small 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 overall liquidity and risk profiles.

Details of AIT's Top Holdings:

Drawbridge (18.32% of Gross Assets): Drawbridge consists of an opportunistic, diversified portfolio of investments made primarily 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. In 2010, AIT received USD 8m from its various Drawbridge positions.

ESL Investments (9.72% 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. Due to ESL's lock up terms AIT has not yet received any distributions from ESL.

EBI Income Fund (8.52% of Gross Assets): EBIIF is in liquidation mode and returns cash to AIT as it becomes available. EBI Income Fund (EBIIF) has exposure to a range of direct investments and indirect investments via its investment in the Everest Babcock & Brown Income Fund (EBBIF). These investments are primarily in mezzanine and subordinated. The largest investment is in loans used to finance the acquisition of two European ports. These have been restructured in order to avoid a default on the loans (and hence maximise returns to EBIIF) but the timeframe for repayment has been extended, meaning a full return to AIT is not possible in the short term. In 2010, the management of EBIIF passed from Everest Capital Management to One Investment Group. EBIIF made two distributions in 2010, returning approximately USD 5m in total for the year.

Marathon Special Opportunity Fund (5.16% of Gross Assets); Marathon Special Opportunities Fund is a multibillion dollar fund that aims to maximise total risk adjusted returns primarily through investment in credit-related strategies – including distressed credit. The fund invests predominantly on an opportunistic basis, to include longer term special situation type investments. Its primary region of investment is North America, although it will invest in any sector where it has sufficient expertise and where it sees opportunity. This fund was able to make investments in under priced assets during the height of the financial crisis and is now seeing significant returns for so doing. In 2010, AIT received USD 6m from its Marathon funds (including side pockets).

TPG-Axon (3.94% of Gross Assets): TPG is a multi-strategy fund. Its current focus is on investments in long/short equity positions, credit investments and structured products (such as patents) with no particular geographic or sector focus. TPG-Axon returned just over USD 13 million to AIT in February 2010, and a further USD 1m before the end of the year. AIT's exposure is now almost entirely to TPG-Axon's side pocket investments.

Eton Park Overseas Fund (3.93% 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

Investment Manager's Report (continued)

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 received USD 2m from Eton Park funds and side pockets in 2010.

GSO Special Situations (2.74% 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 are side-pocketed – largely in Private Equity investments; these may not be redeemed until GSO realise the specific investments.

Och-Ziff Global Special Investments (2.73% 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 these special investments, which do not have a fixed redemption profile.

Everest Absolute Return Fund (2.71% 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 shareholders. During 2010, the management of EARF passed from Everest Capital Management to One Investment Group. AIT received a total of USD 3.5m in distributions from EARF in 2010.

Cerberus International (1.86% 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 payments roughly on a quarterly basis though less than USD 1m was received in 2010.

Other Fund Developments:

During 2010, Laxey successfully negotiated the complete sale of one of its major positions approximately one year ahead of its scheduled redemption date. This deal was agreed at a small discount to the fund's value and was worth USD 6m to AIT. Laxey continues to look for similar opportunities in other funds, including secondary market trading.

Investment Manager's Report (continued)

Liquidity Profile and Side Pockets

AIT's gross debt - which stood at USD 37m on 31 December 2009, and USD 289m at 31 January 2009 - was fully repaid in August 2010. Together with the expiry of the secondary BNP swap, this leaves AIT with greater freedom to make distributions as cash becomes available.

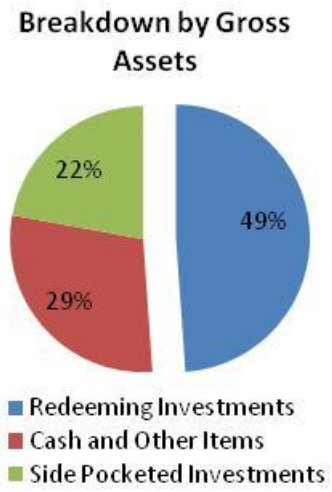
All of AIT's underlying funds have received redemption requests. In 2010, AIT received approximately USD 51m in redemption proceeds from its underlying funds and side pockets within the Swap, in addition to the USD 5m from EBIIF. As the majority of AIT's liquid assets have now redeemed, AIT has increased exposures to liquidating funds as well as the side pocket investments.

Liquidating funds are those which, because of large volumes of redemption requests, were forced to close their funds, 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 subdivides 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.

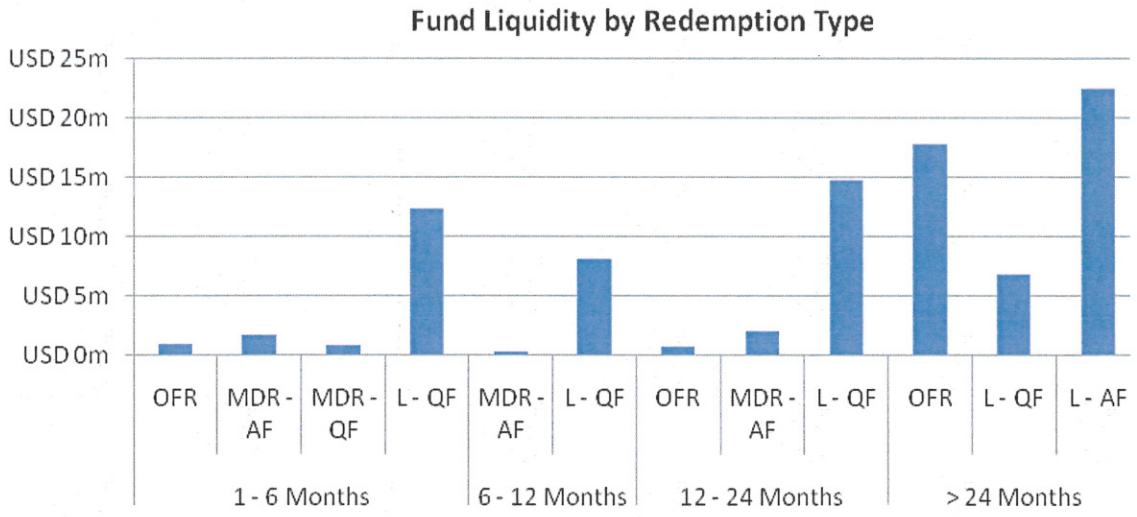
Side pocket positions are esoteric and extremely illiquid investments that are made by an underlying investment manager from within an underlying fund. Although such positions are taken with a specific exit strategy in mind, the liquidity date is often highly unpredictable, and they tend to have 2-4 year horizons on initial investment. AIT's exposure to side pockets has increased 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, and that there is often some doubt as to the exact date of their realisation, these funds are held separately from main funds until realisation, and may not be redeemed at the request of the investor. For this reason, Laxey treats these investments separately to the main funds in determining the liquidity profile of AIT.

22% of AIT's assets are in side pocket investments. These are expected to have substantially redeemed within the next four years. Of course, many of these will be able to make distributions much sooner than this, 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 liquidity division.

The remainder of AIT's non-cash exposure (49% of gross assets) is broken down in the following graph:



Investment Manager's Report (continued)



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

Just over 12% of AIT's gross assets 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.

This leaves 36% of current gross assets exposed to funds with a – relatively – predictable liquidity timetable. On this basis, Laxey expects 8% of current gross assets to redeem by June 2011, a further 5% by December 2011, and another 9% in less than two years.

Outlook

Laxey's priority for AIT is to continue to return cash to unitholders as realisations occur while managing the underlying portfolio in the best interests of unitholders. In this regard, both secondary market trading and other opportunities for early exits are continually monitored and explored. Where an alternative exit becomes available Laxey may take it where the offer price is judged to be in unitholders best interests.

Signed by Colin Kingsnorth
Laxey Partners (UK) Ltd

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

In relation to our audit of the financial report of Alternative Investment Trust for the financial year ended 31 December 2010, 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

Elliott Shadforth
Partner
28 February 2011

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Consolidated **Year ended 31 December 2010 $'000**	Year ended 31 December 2009 $'000
Investment income			
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	(4,337)	(44,237)
Interest income		696	2,933
Foreign exchange gain/(loss) on loans and receivables		(2,699)	(5,792)
Other foreign exchange gains and losses		(1,967)	1,216
Other investment income/ (expense)	3	1,100	(2,138)
Dividend/distribution income		-	63
Total investment income/(loss)		(7,207)	(47,955)
Expenses			
Responsible Entity fees	16	274	2,701
Management fees	16	1,787	3,665
Other operating expenses	3	2,589	3,938
Total operating expenses		4,650	10,304
Operating profit/(loss) attributable to unitholders		(11,857)	(58,259)
Financing costs attributable to unitholders			
Interest expense		(219)	(4,760)
Distributions to unitholders		-	-
Change in net assets attributable to unitholders		(12,076)	(63,019)
Change in net assets attributable to:			
Unitholders		11,612	60,001
Minority interest		464	3,018
Total Comprehensive Income		**-**	**-**

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

STATEMENT OF FINANCIAL POSITION

	Notes	Consolidated As at **31 December 2010 $'000**	31 December 2009 $'000
Assets			
Cash and cash equivalents	9	12,653	14,161
Receivables	11	982	1,475
Financial assets at fair value through profit or loss	7	158,977	211,466
Loan and receivables	6	11,899	12,915
Total assets		184,511	240,017
Liabilities			
Payables	12	1,491	1,612
Financial liabilities held for trading	10	-	41,330
Total liabilities (excluding net assets attributable to unitholders)		1,491	42,942
Net assets attributable to unitholders	13	183,020	197,075
Represented by:			
Units on issue		561,548	561,548
Undistributed income to unitholders		(384,177)	(372,565)
Minority interest		5,649	8,092
		183,020	197,075

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Consolidated			
	Units on issue $'000	**Undistributed income/(loss) $'000**	**Minority interest**	**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**

	Consolidated			
	Units on issue $'000	Undistributed income/(loss) $'000	Minority interest	Total $'000
At 1 January 2009	734,683	(312,564)	-	422,119
In-specie transfer	(111,710)	-	14,751	(96,959)
Return of capital	(61,425)	-	-	(61,425)
Transfer of minority interest	-	-	(3,641)	(3,641)
Change in net assets attributable to unitholders	-	(60,001)	(3,018)	(63,019)
As at 31 December 2009	**561,548**	**(372,565)**	**8,092**	**197,075**

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

STATEMENT OF CASH FLOWS

	Notes	Consolidated Year ended **31 December 2010 $'000**	31 December 2009 $'000
Cash flows from operating activities			
Dividends received		-	63
Interest received		1,103	4,438
Other income received		64	392
Payment of Management, Responsible Entity and other fees		(4,785)	(15,752)
Interest paid		(232)	(4,760)
GST received		105	14
Net cash (used in)/provided by operating activities	8	(3,745)	(15,605)
Cash flows from investing activities			
Proceeds from sale of investments		44,858	545,461
Net cash provided by investing activities		**44,858**	**545,461**
Cash flows from financing activities			
Cash outflow through in-specie transfer		-	(13,078)
Cash outflow through return of capital of non-controlling interest		(1,979)	(61,425)
Repayments of borrowings		(41,330)	(524,212)
Net cash used in financing activities		**(43,309)**	**(598,715)**
Net (decrease)/increase in cash and cash equivalents		(2,196)	(68,859)
Cash and cash equivalents at beginning of the year		14,161	81,977
Effects of foreign currency exchange rate changes on cash and cash equivalents		688	1,043
Cash and cash equivalents at the end of the year	9	12,653	14,161

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

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

Alternative Investment Trust (the Trust or AIT) is an Australian registered managed investment scheme which comprises the entities controlled by AIT (known as the Group or subsidiaries) and is also listed on the Australian Stock 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). On 22 June 2010, the Responsible Entity changed its name from Permanent Investment Management Limited in line with the new branding and visual identity of its parent entity, The Trust Company Limited.

The registered office of The Trust Company (RE Services) Limited is Level 4, 35 Clarence Street, Sydney, NSW 2000.

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

The financial statements were authorised for issue by the Directors on 28 February 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The financial report is prepared on a liquidation basis as the Investment Manager has announced its intention to liquidate AIT as quickly as possible.

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 2010, 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 (A$).

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

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

Amounts payable to unitholders are classified as 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 points 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) Investment in derivative financial instruments

Leverage Facility

The Leverage Facility was denominated in US dollars and provided AIT with an exposure to a leveraged portfolio of leading international absolute return funds, and cash (Underlying Investment Portfolio). Under the terms of the Leverage Facility, the provider of the Leverage Facility (Leverage Facility Provider) undertook to pay AIT a return equal to what it would receive if it had invested in the specified Underlying Investment Portfolio taking into account the leverage provided under the Leverage Facility.

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

Refer to note 1(k) and 1(l) for its measurement base.

During the year, AIT paid off the leverage facility in full.

Forward currency contracts

Forward currency contracts were primarily used by AIT to hedge against foreign currency exchange rate risks on its net financial assets. Forward currency contracts were valued at the prevailing market price at the reporting date. These instruments do not meet the criteria under accounting standards to be accounted for as hedges and are held for trading with gains or losses arising from changes in fair value taken directly through the Statement of Comprehensive Income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial assets

Swap receivable (Underlying Investment Portfolio)

The financial assets of AIT comprise a receivable under the Leverage Facility which reflects the fair value of the Underlying Investment Portfolio upon which AIT's return will be based. Fair value of the swap receivable is calculated with reference to the fair value of the Underlying Investment Portfolio at the reporting date. Gains 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 redemption unit price, which represents the fair value of the underlying investments. Movement in the fair value is recognised in the Statement of Comprehensive Income.

(l) Financial liabilities

Swap payable (Leverage)

The Swap payable reflects the fair value of the leverage period under the Leverage Facility. The economic cost of the Swap payable at the reporting date is recognised as a change in fair value. Movement in the fair value is recognised in the Statement of Comprehensive Income.

During the year AIT paid off the leverage facility in full.

(m) 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 the 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 the AIT to the unitholders each period.

(n) Other taxes

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

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

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

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

(o) Distributions

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Earnings per security

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

(q) 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 value in use. Current market prices are used to determine recoverable amount.

(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 2010. The directors of the Trust are 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 2013.

AASB 2010-3 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process. Key amendments include financials statement disclosures such as classification of content of statement of changes in equity (AASB 101), financial instrument disclosures (AASB 7) and significant events and transactions in financial reports (AASB 134). These amendments are applicable to accounting periods commencing on or after 1 January 2011.

AASB 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards. Key amendments include the partial exemption from the disclosure for government related entities and to clarify the definition of a related party. These amendments are applicable to accounting periods commencing on or after 1 January 2011.

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

Since 1 January 2010, the Trust has adopted all Australian Accounting Standards and Interpretations which were mandatory for annual reporting periods beginning on or after 1 January 2010. Adoption of these standards and interpretations has not had any effect on the financial position or performance of the Trust.

(s) Accounting assumptions

Variability of foreign currency rates
The 10% percentage sensitivity is based on management's best estimate of variability of the Australian dollars and US dollars.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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 the AIT's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market based measure considered from the perspective of market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, AIT's own assumptions are set to reflect those that the market participants would use in pricing the asset or liability at the measurement date. AIT 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 and liabilities have been disclosed in note 7 and note 10 respectively.

2. SEGMENT INFORMATION

AASB 8 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 2010	31 December 2009
	$'000	$'000
Operating segment		
Investment management:		
Attributable to Australia	(6,031)	(3,432)
Attributable to foreign countries	(1,176)	(44,523)
Total investment (loss)/income	(7,207)	(47,955)

3. OTHER INCOME AND EXPENSES

	Consolidated Year ended	
	31 December 2010	31 December 2009
	$'000	$'000
Other expenses		
Professional fees	1,977	2,435
Fund administration and custody expenses	371	367
Other general and administrative expenses	141	1,017
Auditor's remuneration	100	119
Total other operating expenses	2,589	3,938
Other investment income/(expense)		
Impairment income/ (expense)	1,108	(2,405)
Other investment income/ (expense)	(8)	267
	1,100	(2,138)

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

	Consolidated Year ended	
	31 December 2010	31 December 2009
	$'000	$'000
Financial instruments		
Fair value gains/(losses) on Leverage Facility	(4,268)	(38,551)
Net gains/(losses) on direct investments designated as fair value through profit or loss	(69)	(5,757)
Fair value gains/(losses) on derivatives	-	71
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(4,337)	(44,237)

5. EARNINGS PER UNIT

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

	Consolidated Year ended	
	31 December 2010	31 December 2009
	$'000	$'000
Loss attributable to unitholders ($'000)	(11,612)	(60,001)
Basic and diluted earnings per unit in cents	(8.87)	(44.50)
Weighted average number of units in issue ('000)	130,962	134,812

6. LOANS AND RECEIVABLES

	Consolidated As at	
	31 December 2010	31 December 2009
	$'000	$'000
Loans and receivables	26,177	25,602
Less provision for impairment	(14,278)	(12,687)
Total loans and receivables	11,899	12,915

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

	Consolidated As at	
	31 December 2010	31 December 2009
	$'000	$'000
Financial assets		
Underlying Investment Portfolio	152,569	201,695
Unlisted managed fund	6,408	9,771
Total financial assets held at fair value through profit or loss	158,977	211,466

Investments in unlisted managed funds (including in unlisted managed funds that have suspended daily redemptions) are recorded at the redemption 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 2010 & 31 December 2009.

	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**

	Consolidated As at 31 December 2009			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Underlying Investment Portfolio	-	-	201,695	201,695
Units in Unlisted Managed Fund	-	-	9,771	9,771
Total financial assets held at fair value through profit or loss	-	-	211,466	211,466

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

	Units in Managed Funds	**Underlying Investment Portfolio**	**Total**
At 1 January 2009	34,131	831,339	865,470
Net gain/(loss)	(3,654)	(42,403)	(46,057)
Sales	-	(361,128)	(361,128)
Transfer in/out of level 3	(20,706)	(226,113)	(246,819)
As at 31 December 2009	9,771	201,695	211,466

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

	Consolidated Year ended	
	31 December 2010 $'000	31 December 2009 $'000
Reconciliation of profit/(loss) to net cash (used in)/provided by operating activities		
Change in net assets attributable to unitholders	(12,076)	(63,019)
Impairment of non-current assets	(1,108)	2,405
(Gain)/loss on derivatives (Foreign currency contracts)	-	(71)
Fair value (gain)/loss on Leverage Facility	4,268	38,551
Fair value (gain)/loss on direct financial assets	69	11,472
Foreign exchange (gain)/loss	4,666	(1,139)
(Increase)/decrease in receivables	557	1,643
(Decrease)/increase in payables	(121)	(5,447)
Net cash (used in)/provided by operating activities	(3,745)	(15,605)

9. CASH AND CASH EQUIVALENTS

	Consolidated As at	
	31 December 2010 $'000	31 December 2009 $'000
Domestic cash at bank	8,050	8,721
Foreign currency holdings	4,603	5,440
	12,653	14,161

10. FINANCIAL LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated As at	
	31 December 2010 Fair value $'000	31 December 2009 Fair value $'000
Current		
Financial liabilities held for trading	-	41,330
Total financial liabilities held at fair value through profit or loss	-	41,330

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

The leverage facility was paid off in full during the year.

10. FINANCIAL LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The following fair value hierarchy table presents information about the Trust's financial liabilities measured at fair value on a recurring basis as at 31 December 2009.

	Consolidated As at 31 December 2009			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities				
Swap payable (Leverage)	-	41,330	-	41,330
Total financial liabilities held at fair value through profit or loss	-	41,330	-	41,330

11. RECEIVABLES

	Consolidated As at	
	31 December 2010 $'000	31 December 2009 $'000
Interest receivable	880	1,287
GST recoverable	71	176
Other receivables	31	12
Total receivables	982	1,475

No loss has been recognised in respect of receivables during the year ended 31 December 2010 (2009: nil).

12. PAYABLES

	Consolidated As at	
	31 December 2010 $'000	31 December 2009 $'000
Amounts owing to Responsible Entity	33	93
Management fees	796	740
Fund administration and custody expenses	68	84
Legal expenses	327	165
Other payables	267	530
Total payables	1,491	1,612

13. UNITS ON ISSUE

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

	Parent As at			
	31 December 2010 No.	31 December 2009 No.	**31 December 2010 $'000**	31 December 2009 $'000
Opening balance	130,692,470	179,192,421	188,983	422,119
In-specie transfer	-	(48,499,951)	-	(111,710)
Return of capital	-	-	-	(61,425)
Change in net assets attributable to unitholders	-	-	(11,612)	(60,001)
Closing balance	130,692,470	130,692,470	177,371	188,983

IN-SPECIE TRANSFERS

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

The total number of units exchanged under the Exchange Offer was 48,499,951 units being an amount of $111,710,000 transferred to EAIT, representing approximately 27% of AIT's total units on issue. The in specie transfer included a cash payment of $13,078,000 to EAIT. Also transferred were 27% of the underlying investment portfolio of $226,113,000, $28,495,000 of units in the EBI Income Fund, $153,068,000 of swap payable and $2,908,000 of other liabilities.

14. 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 was responsible for the process of sourcing investments and conducting analysis and due diligence using the Former Investment Manager's selection criteria and the ongoing monitoring of the Investment Portfolio. The Investment Portfolio had to comply with the agreed guidelines.

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

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

AIT Entity 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.

14. 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.

EBI Income Fund's current exposure is largely to mezzanine debt in a variety of companies; it is undergoing an orderly liquidation and distributing cash to shareholders as it becomes available. Laxey maintains regular contact with the manager of EBIIF in order to understand the nature and structure of the portfolio, and the associated risk.

Risk concentrations of credit risk exposure

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

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

The credit exposure of the financial assets designated as fair value through profit or loss in Australia represents the intrinsic value of the Leverage Facility of $ 152,568,821 (2009: $160,365,231), being the Underlying Investment Portfolio of $ 152,568,821 (2009: $201,695,349) less the Leverage of $ nil (2009: $41,330,118). This credit risk is mitigated by the fact that assets with a total value of $ 191,486,863 (2009: $247,983,138) are held by third party custodians and subject to first ranking changes in favour of the Responsible Entity.

2009 Consolidated	**Australia A$'000**	**US A$'000**	**Euro A$'000**	**Total A$'000**
Cash and cash equivalents	14,161	-	-	14,161
Receivables	1,475	-	-	1,475
Financial assets designated as fair value through profit or loss	211,466	-	-	211,466
Loan and receivables	-	307	12,608	12,915
Total	227,102	307	12,608	240,017

14. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(a) Credit risk (continued)

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

	2010 A$'000	2009 A$'000
Financial services	6,408	9,771
Ports	10,868	11,671
Structured finance	-	557
Oil and gas	1,031	687
Total	18,307	22,686

(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 and gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2010 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.

	Less than 1 month $'000	**1-3 months $'000**	**3-6 months $'000**	**6-12 months $'000**	**Greater than 12 months $'000**	**Total $'000**
Consolidated						
At 31 December 2010						
Payables	1,491	-	-	-	-	1,491
Total financial liabilities	1,491	-	-	-	-	1,491
At 31 December 2009						
Financial liabilities designated as fair value through profit or loss	-	-	-	41,330	-	41,330
Payables	1,612	-	-	-	-	1,612
Total financial liabilities	1,612	-	-	41,330	-	42,942

(c) Market risk

(i) 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. This risk is managed by ensuring that all activities are transacted in accordance with investment and leverage guidelines outlined in this Note 14. 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.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(ii) 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 following table indicates the currencies to which AIT had significant exposure at 31 December 2010 on its monetary assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

Consolidated 31 December 2010	**Australian Dollars A$'000**	**US Dollars A$'000**	**Euro 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
Loan 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
Total forward exchange contracts (notional and direct)	-	-	-	
Net foreign currency exposure	-	158,015	11,740	169,755
Foreign currency exposure (+10%)	-	173,817	12,914	186,731
Foreign currency exposure (-10%)	-	142,214	10,566	152,780

14. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(ii) Foreign exchange risk (continued)

Consolidated 31 December 2009	**Australian Dollars A$'000**	**US Dollars A$'000**	**Euro A$'000**	**Total A$'000**
Assets				
Cash and cash equivalents	8,721	5,440	-	14,161
Receivables	1,475	-	-	1,475
Financial assets designated as fair value through profit or loss	9,771	201,695	-	211,466
Loan and receivables	-	307	12,608	12,915
Total assets	19,967	207,442	12,608	240,017
Liabilities				
Payables	1,612	-	-	1,612
Financial liabilities designated as fair value through profit or loss	-	41,330	-	41,330
Total liabilities (excluding net assets attributable to unitholders)	1,612	41,330	-	42,942
Net asset attributable to unitholders	18,355	166,112	12,608	197,075
Total foreign currency exposure	-	166,112	12,608	178,720
Total forward exchange contracts (notional and direct)	-	-	-	-
Net foreign currency exposure	-	166,112	12,608	178,720
Foreign currency exposure (+10%)	-	182,723	13,869	196,592
Foreign currency exposure (-10%)	-	149,501	11,347	160,848

At 31 December 2010, 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 is reflected in the tables above.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(iii) 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 investment in fixed interest securities and reporting any issues to the Responsible Entity.

AIT's exposure to interest rate risk is set out in the following table:

		Fixed interest rate					
Consolidated 31 December 2010	**Floating Interest rate $'000**	**1-3 months $'000**	**Less than 3-6 months $'000**	**6-12 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
Financial liabilities designated as fair value through profit or loss	-	-	-	-	-	-	-
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	-	-	1,491	1,491
Net exposure	12,653	-	-	-	11,899	158,468	183,020

		Fixed interest rate					
Consolidated 31 December 2009	**Floating Interest rate $'000**	**1-3 months $'000**	**Less than 3-6 months $'000**	**6-12 months $'000**	**Greater than 12 months $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets							
Cash and cash equivalents	14,161	-	-	-	-	-	14,161
Receivables	-	-	-	-	-	1,475	1,475
Financial assets designated as fair value through profit or loss	-	-	-	-	-	211,466	211,466
Loans and receivables	-	-	-	-	12,915	-	12,915
Total assets	14,161	-	-	-	12,915	212,941	240,017
Liabilities							
Payables	-	-	-	-	-	1,612	1,612
Financial liabilities designated as fair value through profit or loss	41,330	-	-	-	-	-	41,330
Total liabilities (excluding net assets attributable to unitholders)	41,330	-	-	-	-	1,612	42,942
Net exposure	(27,169)	-	-	-	12,915	211,329	197,075

14. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(iii) Interest rate risk (continued)

No interest rate sensitivity analysis has been performed for 2010 as there were no financial liabilities exposed to interest rate risk at the year end. 2009's sensitivity analysis is shown in the table below:

	Change in basis points Increase/decrease	Sensitivity of interest expense Increase/decrease $'000	Sensitivity of changes in fair value of financial liabilities Increase/decrease $'000
2009			
US Interest rate	+0.88bp/-0.12bp	364/(50)	4,613/(629)

(iv) 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 listed securities.

Investment and leverage guidelines

AIT is no longer permitted to:

- Add any new investments to the Underlying 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 for 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 is to undertake an orderly wind down of the AIT portfolio. The leverage facility on the swap was paid down in full during the year.

Capital management

AIT's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for unitholders and benefits for other stakeholders.

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15. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business AIT enters into transactions in various derivative financial instruments with certain risks. The carrying value of these investments is disclosed in note 7 and 10. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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;
- increases 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).

(a) Swaps

(i) Total return equity swap

The key terms and conditions of the swap agreement have been disclosed in the Investment and Leverage Guidelines section of the Directors' report, on page 4.

(b) Foreign exchange

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

16. RELATED PARTY TRANSACTIONS

Key management personnel

The following persons of The Trust Company (RE Services) Limited 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, as follows:

John Atkin
Vicki Allen
David Grbin
Michael Britton

Sally Ascroft acted as an Alternate Director for David Grbin for the period 24 June 2010 to 1 August 2010.

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 Trust Company (RE Services) Limited 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). The Responsible Entity Fees and the Investment Manager's Fees in total are not to exceed 1.25% per annum of gross assets.

16. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Consolidated As at	
	31 December 2010 $'000	31 December 2009 $'000
Fees for the year to the Responsible Entity	274	957
Laxey Management fees	1,579	3,059
Management fees for the Trustees of subsidiary	208	606
Fees for the year to the Former Responsible Entity	-	1,744
	2,061	6,366

The Laxey management fees in 2009 include a one-off fee of $614,255 which was paid as a result of the return of capital made in August 2009. No such fee was paid during the current year.

Investments in unlisted funds managed by Everest Capital Limited (Former Investment Manager)

AIT has invested 91,942,695 units (2009: 91,942,695 units) valued at $15,225,710 (2009: $21,799,613) within a zero fee paying class in the EBI Income Fund (EBIIF) at 31 December 2010. 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 investment allows AIT to achieve its intention of accessing a diversified portfolio of assets and gaining exposure to direct investment in subordinated debt.

Through its investment in EBIIF, AIT indirectly holds 33,191,195 units (2009: 33,191,195 units) valued at $6,407,598 (2009:$ 9,770,677) in EBB Income Fund (EBBIF).

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

17. SUBSIDIARIES

Subsidiary:	EBI Income Fund
Country of Incorporation:	Australia
Acquisition date:	6 December 2006
Percentage owned	73% (2009: 73%)

18. AUDITOR'S REMUNERATION

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

	Consolidated Year ended	
	31 December 2010 $'000	31 December 2009 $'000
During the year the auditor earned the following remuneration:		
Ernst & Young		
Audit and review of financial statements	100	119
Assurance services	**-**	-
Total remuneration	100	119

The Responsible Entity's Board Audit, Risk and Compliance Committee has overseen the relationship with the external auditors 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 former Audit & Risk Management Committee and current Responsible Entity would review the proposal to also ensure they did not affect the independence of the external audit function.

19. SUMMARY PARENT INFORMATION

	Parent Year ended	
	31 December 2010 $'000	31 December 2009 $'000
Assets		
Current assets	11,010	8,249
Financial assets at fair value through profit and loss	167,791	223,496
Total Assets	**178,801**	**231,745**
Liabilities		
Current liabilities (excluding net assets attributable to unitholders)	1,430	1,432
Financial liabilities at fair value through profit and loss	-	41,330
Net assets attributable to unitholders	177,371	188,983
Total liabilities	**178,801**	**231,745**
Change in net assets attributable to unitholders	(11,612)	(60,001)

The amount presented as current assets does not include the financial assets at fair value through profit and 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.

19. SUMMARY PARENT INFORMATION (CONTINUED)

Issued capital, reserves, and shareholders' 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 (2009: none). As disclosed in Note 20 to the financial statements, there are no contingent liabilities or commitments of the parent entity at the reporting date (2009: none).

20. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

There are no commitments or contingencies as at 31 December 2010 (2009: nil).

21. SUBSEQUENT EVENTS

Subsequent to the year end, AIT determined to pay a distribution of 38 cents per unit, being a total of $49.7 million which was paid to unitholders on 18 February 2011.

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 19 to 44, 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 2010 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; and

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

(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 by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

On behalf of the Board
Michael Britton
Director
Sydney, 28 February 2011

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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 statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration 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, 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 Responsible Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in 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 2010 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.

Ernst & Young

Elliott Shadforth
Partner
Sydney
28 February 2011

UNITHOLDER INFORMATION

The following unitholder information as at 11 February 2011

A. Distribution of unitholders

Size of holding	Number of unitholders
Ranges	
1 to 1000	890
1001 to 5000	527
5001 to 10000	224
10001 to 100000	270
100001 and Over	23
Total	**1,934**

B. 20 Largest unitholders

Rank	Name of unitholder	Number of units	% of units issued
1	NATIONAL NOMINEES LIMITED	50,930,287	38.97%
2	HSBC CUSTODY NOMINEES	33,151,507	25.37%
3	JP MORGAN NOMINEES AUSTRALIA	10,604,026	8.11%
4	BUTTONWOOD NOMINEES PTY LTD	3,807,084	2.91%
5	HSBC CUSTODY NOMINEES	3,222,213	2.47%
6	HSBC CUSTODY NOMINEES	3,197,744	2.45%
7	COGENT NOMINEES PTY LIMITED	2,704,689	2.07%
8	UBS NOMINEES PTY LTD	2,347,858	1.80%
9	PAN AUSTRALIAN NOMINEES PTY	2,337,893	1.79%
10	UBS WEALTH MANAGEMENT	1,683,493	1.29%
11	J P MORGAN NOMINEES AUSTRALIA	1,511,028	1.16%
12	CITICORP NOMINEES PTY LIMITED	1,420,644	1.09%
13	CHRISWALL HOLDINGS PTY LTD	1,000,000	0.77%
14	ABN AMRO CLEARING SYDNEY	679,342	0.52%
15	M F CUSTODIANS LTD	450,388	0.34%
16	MR ERIC GEORGE BAKER &	239,000	0.18%
17	MR WARWICK SAUER	150,000	0.11%
18	MR RONALD HEWIT & MRS KIM	143,500	0.11%
19	RBC DEXIA INVESTOR SERVICES	142,017	0.11%
20	PILLION NOMINEES PTY LTD	135,350	0.11%
TOTAL		**119,858,063**	**91.73%**

UNITHOLDER INFORMATION (CONTINUED)

C. Substantial unitholders

Name of unitholder	Number of units	% of units issued
National Nominees Limited	50,930,287	38.97%
HSBC Custody Nominees (Australia) Limited	33,151,507	25.37%

D. Voting Rights

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

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