



# Everest Alternative Investment Trust

## December 2009 Factsheet

The Everest Alternative Investment Trust (EAIT) has exposure to a portfolio of absolute return funds. The objective of the Investment Portfolio is to generate attractive risk-adjusted absolute returns over the medium-to-long term.

### Fund Facts as at 31 December 2009

Estimated monthly return <sup>1</sup>	1.72%
NTA as at 31 December 2009 <sup>1,2</sup>	\$2.18

### Investment manager summary

Investment managers posting positive returns	28
Investment managers posting negative returns	2
Largest manager allocation	16.8%
Smallest manager allocation	0.1% <sup>3</sup>

### Fund NTA returns (net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2009<sup>1</sup></b>	-2.97% <sup>4</sup>	0.00%	-0.44%	0.44%	1.75%	1.97% <sup>5</sup>	0.23%	1.60%	1.02%	0.04%	0.75%	1.72%	<b>6.16%</b>
<b>2008</b>	-4.18%	0.77%	-2.29%	1.04%	1.80%	-2.15%	-1.58%	-2.14%	-9.84%	-15.15%	-8.57%	-7.81%	<b>-41.02%</b>
<b>2007</b>	2.60%	-0.13%	2.33%	2.51%	-4.89% <sup>6</sup>	0.65%	0.00%	-3.44%	1.27%	3.27%	-1.70%	0.74%	<b>2.90%</b>
<b>2006</b>	4.15%	-0.21%	2.63%	2.01%	-3.94%	0.32%	-2.40%	1.72%	1.69%	2.85%	3.70%	2.67%	<b>15.92%</b>
<b>2005</b>	-	-	-	-3.60%	1.00%	2.71%	4.80%	0.23%	3.20%	-3.76%	2.76%	2.46%	<b>9.83%</b>

1 Unaudited – In calculating the NTA, EAIT asset values have been calculated using unaudited absolute return fund performance estimates for the month being reported.

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

3 Residual allocation following a redemption.

4 On 29 January 2009, the EBI portfolio was split proportionately between EAIT and EBI; accordingly historical performance figures before that date are for EBI.

5 Following the announcement of our intention to separate EAIT into two funds, performance data from 1 June 2009 onwards represents the underlying absolute return funds only. Prior to 1 June 2009 the performance data reflects both the absolute return funds and direct investments.

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

### Market Commentary

US data for house prices, consumer confidence, car sales as well as the ISM business conditions survey all rose in December. The US retail sales data also suggested strong December retail sales, consistent with the US consumer starting to gain confidence despite the US economy losing 85,000 jobs during the month. Despite the decrease in jobs, unemployment rate held steady at 10%.

As we have seen a number of times in recent months, improving sentiment leads to increased risk appetite and demand (and prices) of growth assets, including equities, commodities and commodity related currencies such as the Australian dollar (A\$) to move higher. During the month, equities were generally higher, with the S&P 500 up 1.9% for the month and the ASX 200 up 3.7%.

The ongoing improving economic sentiment led to credit spreads hitting new lows for the year (the high yield bond index dropped 125 basis points (bps) to 639 bps). While spreads contracted, speculation that the US Government will be forced to raise interest rates and withdraw stimulus led to a sizable jump in Treasury yields. This increase was larger than the contraction in yields leading to losses on investment grade bonds.



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### Performance Commentary

EAIT's performance for the month was positive +1.72%.

Strong equity markets provided support for the Fund's long/short equity managers. ESL, the Funds' third largest allocation, returned +9.27% for the month and contributed +0.60% to the overall return. ESL follows a concentrated US equities strategy with large positions in the automotive and retail sectors. The fund is led by Eddie Lampert, a seasoned investor whom the press often compare to Warren Buffet. ESL has delivered amazing compound returns of 3,638.5% since its inception in 1988 but has come under criticism of late due to the performance of some its core holdings amid the economic downturn. ESL very publicly acquired Kmart out of bankruptcy in 2004 and has since merged that business with retail chain Sears Holdings (Sears). Sears, was a key driver of the December performance as the shares rose 17.6% during the month, and have risen a further 16% in January 2010 on the back of new Q4 earnings guidance that was significantly ahead of market expectations.

The Fund's largest Multi-strategy manager, TPG Axon, also had a strong December returning +3.71%. Continued tightening in corporate spreads during December 2009 helped the Fund's largest distressed credit manager, Marathon Special Opportunities Fund. Marathon posted another strong month, up 3.5%, as they benefitted from improved market conditions and a continued focus on mispriced idiosyncratic risk in sectors that had been particularly affected by the credit dislocation and weak economy.

A number of the Fund's core investment managers remain unconvinced by the economic recovery and accordingly maintain conservatively positioned portfolios. This conservative positioning meant that they did not fully participate in the rally in equity and credit markets during 2009. While this has been disappointing from a relative performance perspective, we feel that we are in reasonable shape to protect capital should a significant market shock occur.

### Fund Commentary

Following a significant focus on structural and portfolio improvements in 2009, we think the Fund is in a significantly stronger position to benefit from investment markets in 2010. In 2009, we pursued a strategy that was focused on generating liquidity and aggressively reducing debt (gross leverage is now approximately 10%). The significant cash buffers that were built up to meet debt maturities and the withdrawal offers diluted the overall performance of the Fund but also served as a buffer had markets turned in mid 2009.

With a stronger platform in place, the portfolio has better flexibility to allow for more active management of the underlying investment allocations. We do still have a number of positions which we continue to work with managers to gain liquidity as quickly as possible (including within our largest position in Drawbridge Special Opportunities Fund). We look forward to being more active in our asset allocations, focussing on more liquid opportunities in long /short global equity and credit situations.

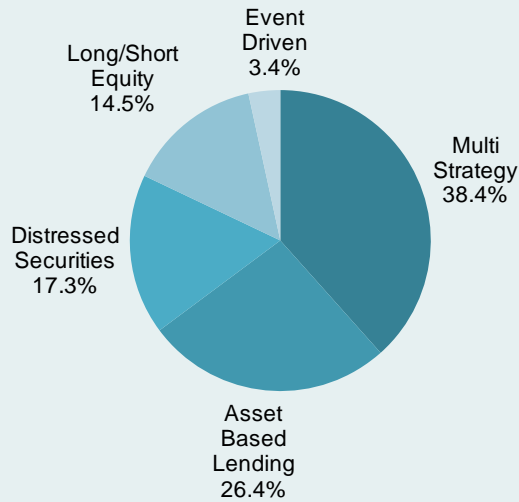
2009 was a great year for investors across most 'risk' asset classes with the flood of liquidity helping drive returns across the board. While we expect these underlying 'technical' factors to remain supportive in 2010 (but at diminished levels), we believe that this year will be characterised by more stock and credit specific opportunities. We believe this environment favours the bottom-up, fundamental research driven, investment processes of our managers. We are not believers that the US economy is 'out of the woods' just yet and remain focused on growing issues in nations such as Japan, Greece, Italy and Ireland which could spook markets.



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## Exposure Summary

### By Strategy



Based on the gross value of the Investment Portfolio. Exposure numbers may not total exactly due to rounding. Does not include impact of FX, interest rate or equity hedges.

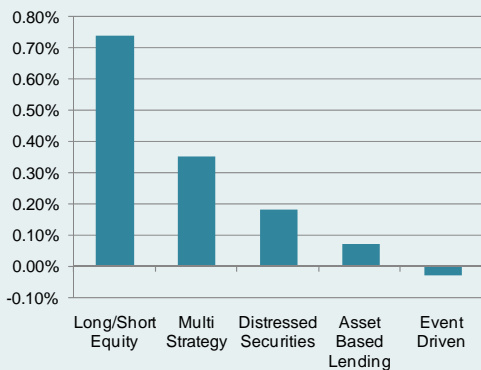
The investment strategy exposures are shown net of cash. Investment strategy and exposure data as at the first business day of the following month.

### By Investment Manager (top eight managers)

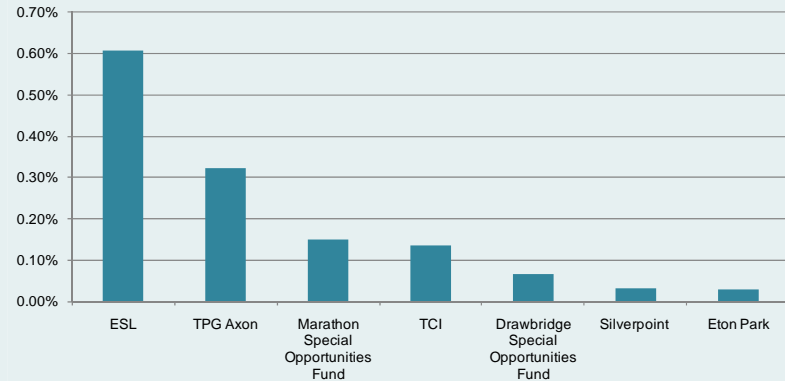
Fund	Strategy	Weight
Drawbridge Special Opportunities Fund	Asset Based Lending	16.8%
TPG Axon	Multi Strategy	8.7%
ESL Investments	Long Biased Equity	6.5%
Marathon Special Opportunities Fund	Distressed Securities	4.2%
Eton Park	Multi Strategy	3.6%
TCI	Long/Short Equity	2.7%
GSO	Multi Strategy	1.9%
Och Ziff Overseas Fund	Multi Strategy	1.8%
<b>Total</b>		<b>46.2%</b>

## Performance Contribution

### By Strategy



### By Investment Manager (top seven contributors)



### Contact us

For further information please visit [www.everest.com.au](http://www.everest.com.au) or email [info@everest.com.au](mailto:info@everest.com.au)

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