



# Everest Alternative Investment Trust

## February 2010 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 28 February 2010

Estimated monthly return <sup>1</sup>	0.82%
NTA as at 28 February 2010 <sup>1,2</sup>	\$2.22

### Investment manager summary

Investment managers posting positive returns	30
Investment managers posting negative returns	5
Largest manager allocation	17.2%
Smallest manager allocation	0.1%

### Fund NTA returns (net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2010</b>	0.95%	0.82%											<b>1.78%</b>
<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 EBIT 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

Equity markets rebounded during the month, supported by a relatively upbeat earnings season and the perception that economic data from the US is generally improving. The S&P 500 posted gains of 2.9% and the ASX 200 recorded a gain of 1.5% for the month. While general market optimism continues, especially in equity markets, there are an increasing number of investment managers that believe the outlook for many economies (including the US and several European nations) remains challenging. These investment managers suggest that the markets are likely to be characterised by a continuing multi-year deleveraging process for both consumers and companies, along with weak demand, high unemployment, low levels of confidence and limited access to bank credit.

During the month, credit markets became increasingly nervous about the level of sovereign debt in the system and the ballooning government deficits. Whilst this concern was primarily focussed on Greece, the nervousness spread to other parts of Europe, sending many European markets lower. Against this back-drop, credit markets were relatively flat for the month, with the Merrill Lynch High Yield index up +0.15%, having started the month with moderate declines (-1% to -2%) and then recovering over the last two weeks.

Spreads for high-yield securities remain high by historic standards. Credit managers report an increase in specific bonds trading at low yields considering their capital structures and fundamental business health. Some of these companies have successfully extended upcoming debt maturities through amendments and/or new bond issues. While this may buy time in the short term, our investment managers believe these efforts are unlikely to be a cure for the real problems of insufficient cash flow and excessive leverage. This environment will continue to provide opportunities for managers focussing on distressed credit strategies.



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### Performance Commentary

EAIT's performance for the month was +0.82%.

Given the general market environment, it is not surprising to see that the major contributors to performance this month were the equity managers and those multi-strategy managers with meaningful equity exposure.

ESL continues its strong run and has been the main driver of performance in recent months. ESL posted a +2.7% gain during the month of February. A number of ESL's core positions performed well with Autozone up +7.0% during the month and Sears increasing by +2.6%. Sears released its 4Q result during February, with the stock performing well in the days leading up to the result. The result was largely as expected (the company had provided guidance in early January), and showed improving sales performance at Kmart stores, and a reducing rate of decline at Sears. Towards the end of the month Standard & Poors revised its rating outlook on Sears' debt to 'stable' from 'negative', citing its 'improved profitability and cash flow generation'.

The Children's Investment Fund ('TCI') was one of the other strong performers for the month, with an estimated net return of +2.5%. TCI also follows a concentrated investment strategy, with the top 10 positions accounting for approximately 80% of the fund. Geographically, the fund invests primarily across North America and Europe, with smaller exposures to Asia and Latin America. The Fund's largest position is in Visa, a popular trade for a number of our managers, accounting for over 15% of the Fund's net assets. TCI remain optimistic that volumes and pricing will surprise on the upside and they continue to be attracted to Visa's business model and secular growth drivers. Other significant equity holdings are in British American Tobacco, Coca-Cola and Oracle.

TPG-Axon, a multi-strategy manager, was the only other significant performer for the month, with an estimated net return of +1.34%. TPG's latest quarterly update highlighted its focus on US equities and its belief that for the first time in recent memory, it is consistently finding better value in US markets relative to others. They continue to focus on significant stock and industry specific factors that they believe are likely to drive significant differentiation in the markets in coming periods.

As a general comment, with investment managers increasingly concerned by the sustainability of the economic recovery in the US, we are seeing a general reduction in market exposures in a number of EAIT's underlying investment funds. As previously discussed, we anticipate that investment manager returns in 2010 will be driven by more stock and individual credit specific factors, rather than overall market strength.

### Fund Commentary

There were no new allocations to managers during the month.

Redemptions from a number of the Fund's more illiquid underlying investments, structured as 'liquidating trusts' continue in line with our current forecasts, however there continues to be limited activity with regards to realisations from the Fund's 'side pocket' assets.

An example of a 'liquidating trust' is the Fund's largest exposure, the Drawbridge Special Opportunities Fund, which produced an estimated composite return of +0.54% for the month. The strategy of the Drawbridge Fund (Drawbridge) is to invest in a diversified portfolio of illiquid and distressed corporate securities, loan originations and asset based investments. We were attracted to this strategy due to the depth of the management team and the uncorrelated nature of their portfolio compared to equity markets and other investment managers that were held in the Fund.

Following substantial redemption requests at Drawbridge, they determined to return capital only as and when loans are repaid, a process they expect to take the next 3 to 5 years. The Drawbridge Fund returned 36% of capital in 2009 and estimates that it will make capital returns of 20%-25% in 2010. Due to this slow repayment of capital, the Drawbridge Fund now accounts for approximately 17% of the Fund's investment portfolio. It is important to note that a significant majority of the underlying loans continue to perform and service their interest obligations, resulting in a current running yield of approximately 10%. The loan book also has the potential for upward revaluation, as the loans and asset based values have not been marked up since early 2009, in line with the manager's prudent valuation approach.

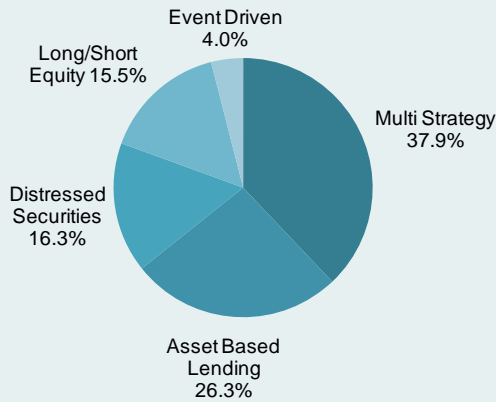
Whilst these types of illiquid strategies have the ability to produce positive, uncorrelated returns, when it comes to looking for new opportunities in the current market, we are now more focused on liquidity, and any new allocations will only be to highly liquid investment managers.



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## Exposure Summary

### By Strategy



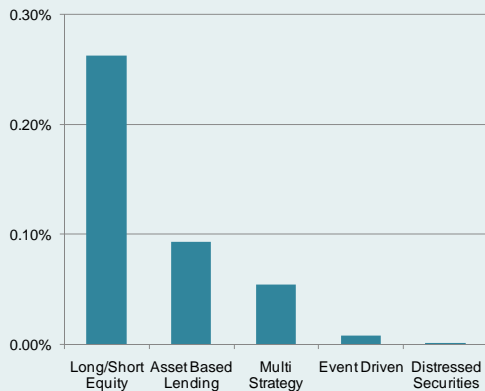
Based on the gross value of the Investment Portfolio. Exposure numbers may not total exactly due to rounding. Does not include impact of FX, interest rate or equity hedges. The investment strategy exposures are shown net of cash. Investment strategy and exposure data as at the first business day of the following month.

### By Investment Manager (top eight managers)

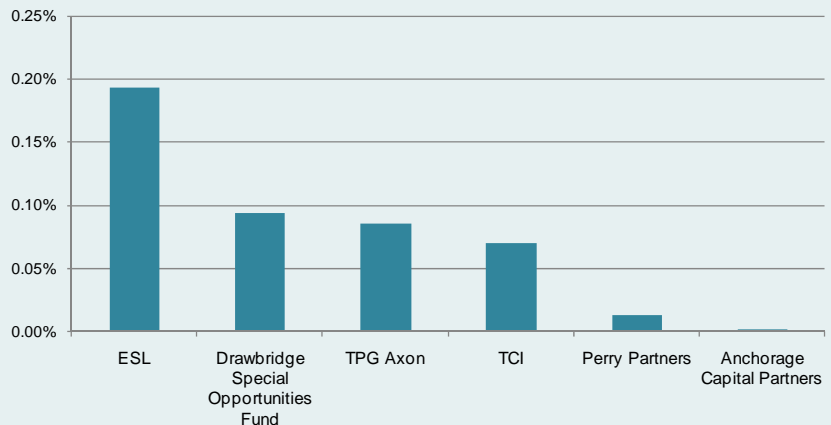
Fund	Strategy	Weight
Drawbridge Special Opportunities Fund	Asset Based Lending	17.2%
TPG Axon	Multi Strategy	8.8%
ESL Investments	Long Biased Equity	7.2%
Marathon Special Opportunities Fund	Distressed Securities	6.4%
Eton Park	Multi Strategy	3.7%
Och Ziff Overseas Fund	Multi Strategy	3.0%
TCI	Long/Short Equity	2.7%
GSO	Multi Strategy	2.0%
<b>Total</b>		<b>51%</b>

## Performance Contribution

### By Strategy



### By Investment Manager (top six 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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