



16 January 2008

Dear Investor

Basis Yield Fund (ARSN 107 898 948) (the "Fund")

Basis Capital Funds Management Limited ("**Basis**") is the responsible entity of the Fund.

This letter is to inform you that on 16 January 2008, Basis filed an originating process with the Supreme Court of New South Wales which, among other things, asks the Court to make the following declarations:

1. A declaration that Basis would be acting in compliance with its duties under section 601FC(1)(m) of the Corporations Act 2001 (Cth) ("**Corporations Act**") in retaining as assets of the Fund the application proceeds received from those persons who made applications for investment in the Fund in June 2007.
2. A declaration that those members of the Fund who lodged, in accordance with the time period in the constitution, a request for the redemption of some or all of their units in the Fund on the 2 July 2007 redemption date are creditors of the Fund in respect of those redemption requests and Basis would be acting in compliance with its duties under section 601FC(1)(k) and (m) of the Corporations Act in calculating redemption proceeds for those redemptions based on the Fund's net asset value at 30 June 2007.

The status of persons who applied for units in June 2007 or requested the redemption of units for effect 2nd July 2007 is in dispute. Basis has sought the declarations from the Court to ensure that it complies with its duties under the Corporations Act and meets its obligations to members of the Fund. It wishes to provide an opportunity for investors such as you who may be affected by any decision made in the Court proceedings to be heard regarding these issues either directly or, as discussed below, through a representative.

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As it is not practical to join all of the members of the Fund to the Court proceedings, Basis intends to seek orders appointing parties to represent the different categories of investors affected by the declarations being sought, being; those investors who made applications for units in June 2007 ("**Applicants**"), those members who made requests for the redemption of units on the redemption date of 2 July 2007 ("**Redeemers**") and the remaining members of the Fund ("**Members**"). The purpose of seeking the appointment of representatives is to ensure that the legal arguments to support the position of each category are properly put to the Court. It is also hoped that the appointment of representatives for the three categories will make the Court proceedings more efficient and cost-effective.

Basis has given prior notice of the proceedings to the Australian Securities and Investments Commission and will serve it with copies of the relevant Court documents.

The proceedings are scheduled to come before the Court for the first time at **11.00 am on March 4th** at which time Basis will seek orders appointing representatives of the three categories referred to above. It is not necessary for any investor, other than the representatives (which Basis has been in contact with) to attend Court on that date. However, if you wish to be joined in the proceedings or be heard in respect of Basis' application for the appointment of representatives or otherwise, you or your legal representative may wish to attend Court on that date. If you are uncertain as to how the proceedings may affect you, please seek independent legal advice.

Basis will write to you again once orders have been made appointing representatives and once the Court has allocated a hearing date for the final determination of Basis' application.

Basis is seeking a timely resolution of these matters by the Court.

Yours faithfully

Basis Capital Funds Management Limited

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