

## **Basis Pac-Rim Opportunity Fund**

c/o Fortis Prime Fund Solutions (Cayman) Limited  
Grand Pavilion Commercial Centre  
802 West Bay Road  
PO Box 2003  
George Town, Grand Cayman  
Cayman Islands

30<sup>th</sup> June 2009

*To all Participating Shareholders*

Dear Participating Shareholder

Due to continued global market deterioration and volatility, it is the view of Basis Pac-Rim Opportunity Fund (the "Fund"), Pac-Rim Investments Limited (the "Investment Manager" or "PRIL") and Basis Capital Funds Management Limited (the "Investment Advisor") that the Fund is unlikely to be in a position to lift the existing suspension of redemptions in the short to medium term as it deals with the legacy issues contemplated in the last letter dated 3<sup>rd</sup> April 2009.

As you will be aware, in accordance with the relevant Confidential Information Memoranda, the Fund is part of a "master-feeder" structure and invests all of its assets into Basis Pac-Rim Opportunity Fund (Master) (the "Master Fund"). The Master Fund holds a portfolio of various asset types, including structured credit assets. The legacy issues of the fund structure include a Lehmans (Europe) liquidator creditor claim of US\$450,000; remaining CDO securities in the portfolio; Basis Yield Alpha Fund salvage value; and the liquidation of the Master Fund and Fund including final liquidation audits.

Accordingly, we are advising you of the sale of the remaining structured credit portfolio, advising you of the fourth capital return by way of compulsory redemption and the wind down of the Master Fund.

### **Remaining Structured Credit Portfolio**

The Directors of the Fund are notifying investors that the Investment Advisor has recommended the sale of the Fund's Structured Credit portfolio, in order to continue the orderly wind down of the Fund and a further distribution to members.

The reasons for the proposed sale include that:

- the ongoing costs of holding the securities may shortly exceed future anticipated cashflows from those securities; and
- the value of the Structured Credit securities has been almost exhausted having crystallised through sales and distributions nearly 40% of value since 1<sup>st</sup> June 2007 and is now valued around US\$800,000.

### **Background**

The Fund's Structured Credit securities are Collateralized Debt Obligations (CDOs) and are first or second loss securities. The first loss, or equity component, is structured as a preference share, or income security, receiving cash-flow payments.

These are principal and interest in nature with a large yield as the security is not expected to pay a bullet sum at maturity because any defaults suffered on a pool of assets are taken on this security in the first instance. Consequently, a part of the CDOs purchase price is collected and amortized down.

In early 2008, the Directors of the Fund announced their intention to undertake an orderly wind-down of the Fund. At that time, the directors, Investment Manager and Advisor agreed a periodic test the market strategy in the context of such a dysfunctional market and try and find other end investors that may bid while being mindful of not compromising value while many forced sellers existed and the Fund and its investors were anxious to avoid a "fire-sale" of the Structured Credit Securities at a less than economic or fundamental value, given the liquidity void that had started in the third quarter of 2007 and the potential for normal markets to return.

The gap between fundamental credit value analysis and a market devoid of transparency, turnover and reference points made it extremely difficult to price the Structured Credit Securities. Typically, the only trading was conducted by forced sellers and pricing below fundamental value.

While the Investment Manager continued to investigate the possible sale of the Structured Credit assets of the Fund for reasonable value, total credit market liquidity withdrew after Lehman Brothers filed for bankruptcy on 15 September 2008. This event took asset prices to systemic lows, jeopardizing companies' abilities to obtain re-financing. This culminated in historic Rating Agency downgrades on corporate loans.

It is not now anticipated that those securities will yield any further significant returns given the present and anticipated state of structured credit markets. The Fund will seek to sell the remaining structured credit securities in the future at the best value that represents the market for those securities at the time and this is not expected to be of significant value to Shareholders for the reasons outlined.

#### **Fourth Return of Capital**

We are pleased to confirm that a fourth return of capital by way of a compulsory redemption as foreshadowed in the last notice to Participating Shareholders dated 3<sup>rd</sup> April 2009 will be undertaken this month. The distribution represents a further US\$34mm or approximately 90% of the remaining NAV as at 30<sup>th</sup> April 2009. This will mean to date over US\$213mm will have been returned to investors leaving a small amount of cash and legacy issues to work through with little indication as to how long they may take to finally resolve.

Accordingly, the Directors hereby give notice that a further 90% of your remaining Participating Shares have been compulsorily redeemed and you will receive a corresponding cash payment shortly following the release of the 31<sup>st</sup> May 2009 Net Asset Value by the Administrator.

#### **Wind Down of the Master Fund into the Fund.**

Given the reduced activity in the Master Fund it is proposed that the existing legacy assets of the Master Fund be transferred to the Fund with a view to simplifying the fund structure and to reduce operating costs going forward. Accordingly this will end the prime broker relationship of the Master Fund with Merrill Lynch International and rely on the existing Custodian Agreement between the Fund and Fortis Prime Fund Solutions Bank (Ireland) Limited for the Fund's future custody needs. Any outstanding financial year audits of the Master Fund will still need to be finalised. Following this the Master Fund will be liquidated.

Please note that this change will not be reflected by way of a revised offering Memoranda as there are no new investors.

#### **Conclusion**

In the circumstances, the value of the Structured Credit portfolio has now been practically exhausted, and given that the ongoing costs of holding the securities may shortly exceed future anticipated cashflows from those securities, it is the Investment Advisor's view that there is little continued benefit to investors in continuing to hold the structured credit assets.

Consequently, the Investment Advisor and Directors of Master Fund have sought interest from parties in relation to the sale of the Fund's portfolio of Structured Credit Securities. The Directors, the Investment Manager and the Investment Advisor firmly believe that the proposed sale is in the best

interests of the Fund and of the Participating Shareholders as a whole and will assist in managing the wind down and wind up of the Fund structure in the future. Following this letter, we anticipate that the Structured Credit Securities will be sold via the best possible bid obtained and in as small a time period as practicable. We are moving as quickly and practically as possible with legal and audit advisors to wind down the Fund to enable orderly liquidation. 'In specie' distributions and liquidating trusts are two ways we may be able to remove legacy assets and claims from the Fund.

If you have any queries or concerns regarding the proposed sale of the Fund's remaining structured credit securities, the 4<sup>th</sup> compulsory redemption, or the wind down of the Master Fund, please contact Peter Dobson in Sydney on +61-2-8234 5500.

*The Directors will be pleased to receive any feedback Participating Shareholders may care to provide to the Fund with regard to the proposal detailed above. However, as Participating Shareholder consent to the proposed sale of securities is not required under Cayman Islands law, you should be aware that feedback received by the Fund will to be used by the Fund for indicative purposes only and will not bind the Fund.*

Yours faithfully

David Mapley  
Zahid Ullah  
Peter Dobson