

Basis Yield Alpha Fund (the "Fund")  
C/- Fortis Prime Fund Solutions (Cayman) Limited  
P.O. Box 2003  
802 W. Bay Road  
Grand Pavilion Commercial Centre  
Grand Cayman, KY1-1104  
Cayman Islands

23<sup>rd</sup> December, 2010

Dear Shareholder,

As 2010 draws to a close it is appropriate that we provide you with a brief update on the affairs of the Fund.

In June, the Basis Yield Alpha Fund (Master) ("Master Fund"), into which the Fund invests, resolved its dispute with a counterparty that was the subject of arbitration in the London Court of International Arbitration. Unfortunately, confidentiality restrictions prohibit the release of any information regarding the resolution of that dispute.

In our letter of 15 June 2010, we informed shareholders that the Master Fund had filed a claim in the US Federal Court against Goldman Sachs and certain of its affiliates ("Goldmans"). In the Master Fund's Press Release of 24 August 2010, it was noted that Goldmans had sought to take advantage of the recent Supreme Court decision in the *Morrison* case to argue that the Master Fund's purchase of Timberwolf securities was a foreign transaction and could not be the subject of a claim brought under U.S. securities laws. It was further noted in the press release that the Master Fund had forcefully argued that, unlike transaction in the *Morrison* case, the Timberwolf trade was a New York trade from start to finish, negotiated and implemented by Goldman personnel in New York.

At this time we are waiting for Judge Jones to hand down her decision on Goldman's motion to dismiss. We will inform investors of the outcome as soon as that decision has been received. We note that Judge Jones is also hearing the S.E.C.'s ongoing claim against the Goldman's trader Fabrice Tourre which is also the subject of a motion to dismiss on the basis of the *Morrison* decision.

We would like to take this opportunity to wish you happy and safe holiday period. We look forward to updating you further in the New Year.

Yours faithfully,

Peter Dobson on behalf of  
Basis Yield Alpha Fund