

# Basis Yield Alpha Fund

C/- Fortis Prime Fund Solutions (Cayman) Limited

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Dear Shareholder,

The Basis Yield Alpha Fund ("Fund") team has continued to work with the Joint Official Liquidators ("JOLs") of Basis Yield Alpha Fund (Master) (In Liquidation) ("Master Fund"), to realize any residual value in the Fund and support any legal actions instigated by the JOLs on behalf of the Fund.

As reported by the JOLs, and measured on a balance sheet and a cash-flow basis, the Master Fund remains solvent. This assessment is based on cash balances alone and before ascribing any value to the portfolio of securities. The directors have since formed the view, under advice, that the securities portfolio was unlikely to appreciate above the nominal value attributed to them by the JOLs as future cashflow potential had been exhausted. Accordingly, the portfolio was recently sold for a nominal value representing a material cost saving of custody fees going forward and therefore being in the best interests of Shareholders.

Since being appointed as Official Liquidator in December 2007 the JOLs have undertaken two important processes. First, a comprehensive proof of debt process to determine the Master Fund's creditors and make payments accordingly and, second, an investigation into the affairs of the Master Fund and the circumstances giving rise to the Master Fund's losses.

The directors and its advisers (including Basis Capital Funds Management Ltd ["BCFM"]) have assisted the JOLs during 2008 and 2009 on these and other issues. However, although the JOLs were appointed upon the Fund's application to the Grand Court of the Cayman Islands to protect the Fund's remaining assets and to maximize returns to Shareholders, they act independently of the Fund and its advisers and receive independent advice from lawyers in the Cayman Islands, England, Australia and the United States.

The JOLs had taken action to obtain and preserve the relevant records by issuing Production Orders and written requests against certain of the Master Fund's investment bank counterparties and Investment Advisor. In some instances there have been extensive delays as a result of deadline extensions and due to active resistance from bank parties in providing the information sought.

These independent investigations of the JOLs have led to a number of claims being identified by the JOLs and the Fund considers that it is of benefit to the Master Fund and Shareholders as a whole to have those claims pursued by the JOLs who are able to draw on the global resources and experience of Grant Thornton. In this regard what is clear is the interests of the Master Fund, the Fund (including its Shareholders) and BCFM are aligned to achieve the best possible outcome.

There are presently three counterparty claims being pursued by the JOLs on behalf of the Master Fund. Unfortunately, as the details of those claims are confidential to the Master Fund, neither the Fund nor its advisers are at liberty to disclose them to Shareholders. Nor would it be prudent to disclose those details in a communication such as this while those claims are ongoing.

Still, some information can be provided. One claim is presently being arbitrated in the London Court of International Arbitration. At this stage, a hearing is not expected to occur until about the middle of 2010 at the earliest. In respect of the two other counterparty claims, subject to the outcome of preliminary negotiations, it is anticipated that proceedings will be commenced in the US. To the extent that information regarding the claims becomes publicly available, the Fund will provide Shareholders with the details of that publicly available information at that time.

The quantum of all claims seeks to recover more than US\$80 million (which would represent approximately 20% of the NAV of the Master Fund as at 30Jun07). Having said that we should all be aware that despite the conviction levels to bring the claims in the first place, unsurprisingly the counterparties in question vigorously deny any liability. Therefore, the Fund is unable to predict the outcome or timing of the claims and the total recovery for the Master Fund with any certainty as the claims are being prosecuted by the JOLs (not the Fund or BCFM) and also because of the inherent uncertainty and costs of litigation. Accordingly, any actual recovery resulting from the claims could be materially less. Further information regarding the likely or anticipated quantum of any recovery will be provided as more information comes to hand.

Looking forward, the Fund and its advisers will continue to assist the JOLs to bring the remaining proof of debt claims to a conclusion and assist them with any litigation initiatives. The Fund and its advisers remain committed to achieving the best possible outcome for Shareholders. In addition we also remain conscious of any potential cost savings to the Fund. To this end Peter Dobson and Thomas Carrick recently replaced the directors of the Fund at a material saving to the Fund.

As it costs the Fund a material amount each time a written communication is sent out we invite all investors to check the adviser's website [www.basiscap.com.au](http://www.basiscap.com.au) and / or contact Peter Dobson on +61-2-8667 3147 for any updates or queries.

Yours sincerely,

Tom Carrick and Peter Dobson  
Basis Yield Alpha Fund  
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