



**The Unitholders,
Basis Yield Fund,**

22 December, 2011

Dear Investor,

We are writing to update you with respect to your investment in the Basis Yield Fund ("BYF"). Terms used in this letter have the same meaning as in the Constitution of the Basis Yield Fund unless stated otherwise.

As you are aware, in mid-July 2007, BYF was severely impacted by its indirect investment in structured credit markets via its shareholding in the Basis Yield Alpha Fund (the "**BYAF**"). Since that time, applications and redemptions for BYF have been suspended while BYF continues to await a distribution from BYAF following the outcome of certain litigation initiatives being undertaken by the Basis Yield Alpha Fund (Master).

BYAF Liquidation Plan

As we have previously informed you, in order to preserve the value of BYAF's assets and maximise the distributions available to shareholders from the Master Fund's claims, on 5 August 2011 the Management Shareholder, acting on legal advice, resolved that BYAF should be placed into voluntary liquidation and that BYAF should implement a liquidation plan that preserves certain assets of BYAF for the benefit of shareholders ("**Liquidation Plan**").

In carrying out the Liquidation Plan, pursuant to a Declaration of Trust made on 4 November 2011, the voluntary liquidator of BYAF transferred BYAF's shareholding in the Basis Yield Alpha Fund (Master) to the trustees of the newly formed Yield Alpha Sub-Trust ("**YA Sub-Trust**"). In exchange for such property, the trustees of the YA Sub-Trust issued units ("**YA Units**") in the YA Sub-Trust to BYAF. The voluntary liquidator of BYAF has made an in-kind distribution of the YA Units to BYAF's shareholders, including BYF.

BYF Liquidation Plan

In keeping with the intent of the Liquidation Plan, BCFM now intends to implement a liquidation plan for BYF ("**BYF Liquidation Plan**") to further reduce the costs associated with maintaining the fund structure, so as to preserve the value of BYF's assets and maximise the potential distributions available to Members from the Master Fund's

Basis Capital Funds Management Ltd
Suite 608
1 Macquarie Place
Sydney NSW 2000
PO Box N115
Grosvenor Place NSW 1220
T +61 2 8006 4469
F +61 2 9241 6801
www.basiscap.com.au

ACN 092 478 441
Australian Financial Services
Licence No.230576

claims. If the Master Fund's claims continue for a further 2-3 years, which is possible, the savings resulting from the BYF Liquidation Plan will be in the order of several hundred thousand dollars. This is a material amount of cost reduction over time, particularly given BYF's present financial position.

July 2007 Redeemers and in-kind distribution of YA Units

As Members may recall, when BYF was suspended in July 2007 there were a number of Members which had submitted a valid redemption in respect of the 2 July 2007 redemption date (the "**July 2007 Redeemers**"). The total amount BYF owes the July 2007 Redeemers is \$5,830,580.08 ("**Redemption Amount**").

Following proceedings instituted by BCFM in the New South Wales Supreme Court, it was held that the July 2007 Redeemers were entitled to have their Units redeemed at the 2 July 2007 Redemption Price. Accordingly, the July Redeemers are in a position of priority to Members. In line with this, early next year, BCFM proposes to pay the redemption amount owed to the July 2007 Redeemers: (i) partly in cash, out of the anticipated proceeds of a distribution to be made by the YA Sub-Trust; and (ii) pursuant to paragraph 7.17 of the Constitution, partly by transferring Assets (in the form of 'priority' YA Units ("**Priority YA Units**") to be issued by the YA Sub-Trust) to the July 2007 Redeemers. The Priority YA Units will give the July 2007 Redeemers first call on any future distributions from the YA Sub-Trust up to the unpaid balance of the Redemption Amount. It is then proposed that BYF's remaining holding of 'ordinary' YA Units which will be entitled to share in the balance of any distributions from the YA Sub-Trust in excess of the Redemption Amount, be transferred to Members as a distribution of capital.

Termination of BYF

Following completion of the aforementioned steps BCFM intends to give notice to Members pursuant to paragraph 21.2 of the Constitution specifying a date of termination of BYF. Following termination, BCFM must realise the Assets within 180 days if practical and in any event as soon as possible after that and distribute the net proceeds of realisation, after making allowance for all Liabilities of BYF (actual and anticipated) and meeting the expenses (including anticipated expenses) of the termination, pro rata to Members according to the number of Units they hold.

Basis Capital Funds Management Ltd
Suite 608
1 Macquarie Place
Sydney NSW 2000
PO Box N115
Grosvenor Place NSW 1220
T +61 2 8006 4469
F +61 2 9241 6801
www.basiscap.com.au



For clarification of any of the matters set out in this letter please feel free to contact Basis on (02) 8006 4469 or (02) 8667 3147.

Yours faithfully,

Peter Dobson
Director

Basis Capital Funds Management Ltd
Suite 608
1 Macquarie Place
Sydney NSW 2000
PO Box N115
Grosvenor Place NSW 1220
T +61 2 8006 4469
F +61 2 9241 6801
www.basiscap.com.au

ACN 092 478 441
Australian Financial Services
Licence No.230576