



Frequently Asked Questions – Basis Yield Fund

(as at 22 February 2008)

1. What is the current status of the Basis Yield Alpha Master Fund (“Master Fund”)?

The Master Fund applied to the Grand Court of the Cayman Island (“the Grand Court”) for the appointment of provisional liquidators on 28th August 2007. This action was taken to help preserve and protect the assets of the Master Fund: a strategy that to date has been successful. This protection allows for the assets be realised in an orderly fashion and hence enhance any surplus that might remain after paying all creditors.

On 14 December 2007, the provisional liquidators notified Basis Capital Funds Management Limited (“BCFML”) that the Master Fund had returned to solvency: both in terms of net assets and cash flow (ability to pay debts as and when they fall due). The provisional liquidators’ analysis was based solely on the Master Fund’s cash in bank and included the full amount of all creditors’ claims irrespective of whether or not the liquidators considered the claims valid. The value of the Master Fund’s structured credit assets was not taken into account given the difficulties associated with valuing them at that time.

Despite the return to solvency, the Master Fund has been severely affected by the turmoil in global credit markets and the value of its remaining structured credit assets is uncertain and the Fund itself does not represent an ongoing viable economic concern.

Consequently, the Master Fund resolved to apply to the Grand Court for it to move out of provisional liquidation and into official liquidation and on 19 December 2007, the Grand Court ordered that the provisional liquidators be appointed joint official liquidators (“JOLs”) of the Master Fund and be authorised to do any acts or things considered by them necessary or desirable in connection with the liquidation of the Master Fund and the winding up of its affairs.

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2. What is the relationship between the Master Fund and my investment in the BYF?

The BYF indirectly invests predominantly all of its assets into the Master Fund via shares in the Basis Yield Alpha Fund.

3. The media reports the Basis Yield Fund as having a value of two cents on the dollar and yet there seems to be no official communication of this to investors. What is the status of the Fund's valuation?

The valuation reported by the media is not official. It is a value assigned to the Basis Pac-Rim Fund's investment into the BYAF, based solely on the Basis Pac Rim Fund's own internal valuation policies. The valuation has taken into account the Basis Pac-Rim Fund's status as an independent investor in BYAF, its official liquidation status, its uncertain value and uncertain timing of potential value. The estimate is not reflective of any official value or NAV of the BYAF. The Basis Yield Fund invests predominantly all of its assets into the BYAF.

4. What is the current estimate of the likely return to the investors and when will it be paid?

BYF is unable to give a current estimate at this time; more information is required from the JOLs of the Master Fund. The JOLs have been ordered by the Grand Court to file with the clerk of the Court every twelve calendar months a report in writing of the position of and the progress made with the winding up of the Master Fund and with the realisation of its assets and any other matters connected to its winding up. Additionally, the Court may direct them from time to time to submit a report as required.

BCFML anticipates receiving a report from BYAF in the near future and will continue to press for a report from the official liquidators as soon as possible.

5. Can the Official Liquidator sell the Master Fund's structured credit assets?

Yes, as discussed in the answer to FAQ 1 above, the JOLs are in complete control of the Master Fund and its structured credit and other assets. However, the JOLs will only sell assets if it is in the best interests of the Master Fund, its creditors and members to do so.

6. Is it likely that realised losses will be incurred in the Basis Yield Fund this financial year as I have capital gains that I would like to offset?

It isn't possible to say and will depend upon how long it takes for the JOLs to liquidate the Master Fund and return any surplus – if there is one – to investors.

7. Does the Fund or its Responsible Entity pay commissions to Financial Advisers?

BCFML pays contributions, on behalf of investors, to financial advisors if directed to do so on the investor's application form. The commission is paid out of the investor's application moneys such that the amount of their investment is reduced by the amount of the contribution. The nature and amount of these contributions is a matter for the investor and his or her advisor. Basis does not pay any commissions or other incentive payments to financial planners or advisors.

8. Can units be transferred whilst the Fund is suspended?

Yes. Registries Ltd, as the Registrar, is able to transfer units in accordance with the Constitution and Product Disclosure Statement. The Registrar requires a properly completed and executed Standard Transfer Form between the Transferee and Transferor be sent to them for processing. Investors should seek their own financial and legal advice before executing a transfer as well as regarding the value attributable to the units being transferred.

9. Is the Investment Manager continuing to extract a Management Fee while the Yield Fund remains suspended?

BCFML has not received any management fees since the suspension of applications and redemptions on 16 July 2007. In particular, BCFML did not claim, nor receive, any management fees calculated by reference to the net asset value of BYF as at 30 June 2007 determined in late September 2007.

However, BCFML has been appointed by the JOLs to advise them during the liquidation process. For this it receives a fee paid for out of the assets of the BYAMF. The manager's appointment, tenure and remuneration are dependent upon the approval of the JOLs.

10. Have there been any redundancies amongst the key investment team?

No not from the investment team. Regrettably, however, there have been some staff redundancies in other areas of the business in line with a general scaling down of operations.

11. How long can the Fund remain suspended?

BCFML does not intend to reopen BYF to further applications or redemptions. Instead, BYF will await a final distribution from BYAF following the completion of the Master Fund's liquidation. This money, any other assets of BYF, will be used, first to pay creditors¹ and second, to pay a final distribution to BYF's members. Consequently, there is no need to lodge redemption requests.

12. What is the prognosis for the Structured Credit asset markets to which the Fund has exposure?

Please refer to our September and December 2007 quarterly market updates for a comprehensive overview of both the Asian high yield and structured credit markets. These are located on Basis' website at: www.basiscap.com.au.

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¹ As communicated to members by way of letter dated 16 January 2008, BCFML has commenced proceedings in the Supreme Court of New South Wales seeking, among other things, a declaration that those members of BYF who had lodged a valid redemption request (due on or before 1 May 2007) in respect of the 2 July 2007 Redemption Date be treated as creditors of BYF for value as at 2 July 2007