

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 27

Topic: Basis Yield Alpha Fund

Hansard Page: E122, E123 (01/06/2010)

Senator BUSHBY asked:

Senator BUSHBY—Have you heard of a fund regulated under the Australian Managed Investments Act known as the Basis Yield Alpha Fund?

Mr D'Aloisio—Yes, I have.

Senator BUSHBY—Is this fund currently operating?

Mr D'Aloisio—There are two Basis funds. I think one was frozen and I think the other one is operating. There are two of them. One is operating and one, I think, is frozen.

Senator BUSHBY—Are you aware of whether there have been any losses in this fund or the other Basis funds following the collapse of the CDO market in 2007? If so, what is the extent of those losses?

Mr D'Aloisio—Clearly there are issues around specific cases. I think in relation to this in terms of the public record, the Basis capital, from memory, the investments related to CDO, or collateralised debt obligations and they were pursuant to a registered managed investment scheme. There were product disclosure statements. The product disclosure statements were quite extensive in outlining the risk and the leverage and the nature of these models. My understanding is that in turn those funds invested in offshore funds and ultimately invested in funds in the United States and in more sophisticated synthetic CDOs, which they have. As a consequence of those investments, when assets declined when we had the crisis, those funds then either, from memory, closed or were at least frozen for a period of time just to look at the investor returns. Beyond that, I would have to take it on notice, because I am trying to recollect here.

Senator BUSHBY—There were reports that there were losses of \$700 million, which is the largest loss under the MI Act since its inception in 1998.

Mr D'Aloisio—I cannot confirm that.

Senator BUSHBY—Are you aware of whether the fund is being wound up? I am talking about the Basis fund that is not operating. What will be its final distribution?

Mr D'Aloisio—When I looked at it, one of them was, as I said, frozen. The other one was still operating. Again, this is a matter that we can take up. Indeed, I suspect our people are in touch with the fund managers. We can get that information. I do not want to guess at it.

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Senator BUSHBY—Did the ASIC annual report of 2008-09 have any reference to Basis and/or the Timberwolf episode?

Mr D'Aloisio—Have any?

Senator BUSHBY—Any reference to Basis and/or the Timberwolf episode?

Mr D'Aloisio—I will need to check, but I would not have thought so because normally we would report on what we take action on. We have not taken action on that.

Answers:

1. Senator Bushby: Is the fund [ie the Basis Yield Alpha Fund] currently operating?

There are two managed investment schemes ('MIS') registered with ASIC and operated by the responsible entity, Basis Capital Management Ltd, the holder of an Australian financial services licence.

The first is the Basis Yield Fund, which invested via a Cayman Island 'feeder' fund into the Cayman Island fund, Basis Yield Alpha Fund (Master). The Basis Alpha Yield Fund (Master) invested mainly in collateralised debt obligations, collateralised loan obligations and some corporate and bank debt.

The second is the Basis Aust-Rim Diversified Fund, which invested via another Cayman feeder fund into the Cayman Island fund, Basis Pac-Rim Opportunity Fund (Master). The Basis Pac-Rim Opportunity Fund (Master) invested in similar assets, though with a greater weighting to corporate/bank debt, some equity and, via the feeder fund of the Basis Yield Alpha Fund (Master), into that fund.

Basis Capital Management Ltd, was the investment manager of both master funds.

Neither of the Australian MISs have been liquidated but redemptions from the Basis Yield Fund have been 'frozen' since mid-2007. The Basis Yield Alpha Fund (Master) was placed in administration in 2007 when it could not satisfy margin calls from its investment bank counterparties. All creditors have now been paid and the master fund emerged from administration in May 2010.

The Basis Aust-Rim Diversified Fund MIS has been winding down since mid-2007.

2. Senator Bushby: Are you aware of whether there have been any losses in this fund or the other Basis funds following the collapse of the CDO market in 2007? If so, what is the extent of those losses?

As at May 2007, AUD\$ 419 million was invested in the Basis Yield Fund. This investment was combined with an USD\$79 million invested by the Basis Pac-Rim

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Opportunity Fund (Master) into the Basis Yield Alpha Fund (Master) which had approximately USD\$550 million in assets under management as at May 2007.

The Basis Yield Fund has not paid any distributions to investors and no redemptions have been paid either – though subscriptions received in June and July 2007 were returned to investors. We are advised that investors are unlikely to receive any appreciable distribution unless and until the dispute with Goldman Sachs' over the Timberwolf CDO, the subject a suit commenced in New York in June 2010 by the master fund, is satisfactorily resolved. The quantum claimed is USD\$56 million plus punitive damages of USD\$1 billion.

As at May 2007 AUD\$ 431 million was invested in the Basis Aust-Rim Diversified Fund which was invested, via a feeder fund, in the Basis Pac-Rim Opportunity Fund (Master) with some co-investment from foreign investors for a total pool of US\$650 million in assets under management.

We are advised that the Basis Aust-Rim Diversified Fund has paid out some distributions as the assets of its master fund have been sold and some more distributions are expected. We are advised that investors are likely to have between 40% and 50% of their investment returned.

3. Senator Bushby: Are you aware of whether the fund is being wound up? I am talking about the Basis fund that is not operating. What will be its final distribution?

See answer to question 2.

4. Senator Bushby: Did the ASIC annual report of 2008-09 have any reference to Basis and/or the Timberwolf episode?

There was no reference to Basis Capital Management Ltd, or its funds or the Timberwolf CDO in ASIC's annual report for 2008/09.

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