INVESTORS STRUGGLE TO FIND BUYERS IN AUGUST

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Elana Margulies

NASSAU:
Secondary market trading for hedge funds has seen its supply and demand curves shift dramatically in August with supply significantly outstripping demand. According to an investor letter from Hedgebay Trading Corp., a facilitator of secondary market transactions between hedge fund buyers and sellers, "supply of hedge funds increased exponentially and demand, while not exponentially reduced, was reduced significantly."

Laurus Offshore Fund, Libertyview Credit Opportunities, Thames River Kingsway and Wexford Offshore Distressed were among the funds with the largest number of exiting investors in August.

In the first two weeks of August, investors in the Black Mesa Offshore Fund were looking to sell $5m worth of shares, while investors in Pergamon Capital's Pergamon Enhanced Offshore Fund were looking to unload $10m worth of shares. Black Mesa ended last month down 10.7%

UK-based RAB Capital also saw a lot of secondary trading activity last month with investors looking to sell $10m worth of shares in the RAB Energy Fund, $6m in the Octane Fund and $10m in the Special Situations Fund. The year-to-date return for the Class F shares of RAB's energy fund is 7.83% through the beginning of September, while the special situations fund returned 18.31%.

Meanwhile, on the demand side, investors were looking to secure $10m worth of shares in Eton Park Capital Management's Eton Park Overseas Fund, $5m worth of shares in Moore Capital Management's offshore Moore Global Investment Fund and $10m in UK-based Solent Capital's Solent Credit Opportunities Fund. According to performance data, Moore's Global Investment Fund's year-to-date return through the beginning of the month is 4.03%.

According to a Hedgebay letter, two factors seemed to have impacted the peak in supply in the secondary hedge fund market. **"**First, hedge funds which were closed to new investment prior to last month, reopened. This was either to replace capital that had been lost or take advantage of the opportunities created by the dislocations. Second, the increase was also caused by investor need or desire for liquidity," the letter dated 12 September stated.

Meanwhile, the drop in demand was pinned against the lack of liquidity and fear of further losses.

"The bad news, which anyone who passed their economics course has already ascertained, is that the price of liquidity is far greater now than it was 45 days ago," the letter stated. "With most funds being open and no existence of a charity equivalent to the Fed to provide liquidity for virtually free, buyers will need to be compensated for the risks they will be taking in providing any liquidity ... The good news is that there are bids, which are reasonably deep, which is proving the viability of the secondary market for hedge funds."

As a result of the Fed's interest rate cut, liquidity is expected to increase. "The data that we analyse was supportive of a positive market move going into the Fed decision ... the probability of positive capital flows was statistically very significant." said Marco Bitran, portfolio manager of GMB Capital Management.

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