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The long and the short of it

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Need for liquidity drives increase in sale of 'second-hand' funds

Investors turn to secondary market

NEW PLATFORMS, BUYERS AND SELLERS are scrambling to enter the hedge fund secondary market space, as more investors race for cash by selling heavily discounted assets.

Interested investors are also preparing to buy second hand hedge fund stakes. Today HFMWeek can reveal that the \$59.2bn New Jersey State Investment Council has hatched plans to shake-up its own alternatives investment portfolio, with a series of secondary market purchases (See news page 8).

In the space of two weeks, three new platforms have set up dealing desks to meet this demand for second-hand funds. Tullet Prebon, the world's second largest inter-broker dealer, and US-based Cogent and SecondMarket are all hoping to take advantage of increased volumes of business.

The continued need for liquidity is expected to accelerate the sales process. Investors, who in the past would not sell at a discount, are now selling stakes at substantial reductions, often due to the long lock-up periods of the funds. Neil Campbell, who runs Tullet Prebon's alternative investments desk, said that stakes in funds could be secured as cheaply as 45c in the dollar for less liquid products.

Meanwhile, the hedge funds themselves, who previously shied away from the model, are recommending platforms to investors, as they try to side-step redemptions. Speaking to HFMWeek, Elias Tueta, the co-founder of HedgeBay, the oldest of the secondary market operators said: "Many [managers] are now actively supporting trades. Instead of having to face investors pulling

money out of the fund, we can find other investors to take on the investment."

According to reports, Cogent currently has over \$2bn of listings in illiquid hedge fund and private equity stakes via its recently launched trading platform. While the rush to place \$5-40m of assets with the new platform, established by industry newcomer SecondMarket, came within hours of it becoming active two weeks ago.

Campbell told HFMWeek that groundwork for Tullet's own desk was laid at the height of the sector's problems in December 2008. The firm hopes to leverage the well-known Tullet Prebon brand to attract large institutional investors.

"We have been live for two weeks and have 200 funds listed," he said. Campbell confirmed that Tullet had also been approached by "several large institutions - global brand names", about potential purchases.

Last year is believed to have been a boom year for secondary market transactions. According to Tueta, HedgeBay transacted over \$1bn in deals, effectively doubling its business.

"In 2008 we doubled our business from 2007 levels," said Elias. He refused to speculate on 2009 levels but said that January and February had been dynamic and the volume of business had been significant. "We have been very busy, everybody is looking for liquidity," he said.

Many current buyers are interested in buying second hand stakes in existing investments, said Campbell. London-based fund of hedge funds, Culross, said it was anticipating using the



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New Jersey plans portfolio shake-up

The New Jersey State Investment Council plans to shake-up its portfolio with a series of new secondary market purchases

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Emergent Asset Management, a UK-based manager, is the latest hedge fund with plans to launch a Ucits III strategy