



Hedge Fund Investors Look To Unload Illiquid Funds - Hedgebay

LONDON -(Dow Jones)- Hedge fund investors looking to cull their portfolios of poor-performing credit and private-equity strategies sent the average price paid for secondary hedge-fund stakes to a record low in December.

Hedgebay Trading Corp., a company tracking these kinds of trades between investors, said Thursday the average price paid in the month was only 80% of face value, and that only one trade it recorded came anywhere close to par, at 97%. The lowest trade was at 56% of face value.

The top two traded strategies were credit and private equity, investment areas that in many cases plummeted in value during the financial crisis and haven't necessarily improved much since, depending on the underlying investments.

Elias Tueta, Hedgebay's co-founder, said the low prices show how some investors just want to cut their losses and move on, particularly when the underlying funds are holding illiquid assets that may not be possible to sell for a long time.

"This dead weight makes achieving performance targets very difficult," he said.

According to Hedge Fund Research Inc., hedge funds on average posted a 20% return last year. But funds of hedge funds, which invest in pools of individual hedge funds, returned just 11.5%. It's hard to say exactly why the discrepancy was so large compared to other years, but it could be because funds of hedge funds are stuck with investments no longer reporting their performance to index providers, including so-called side-pockets many hedge funds created to store their most-illiquid assets.

Tueta said first-quarter trading of hedge fund stakes in the secondary market is also likely to be focused on illiquid funds.

Hedgebay created the index last year to track market sentiment in the hedge-fund industry. The price at which a hedge fund stake trades can be at either a discount or premium to its net asset value--a number typically calculated each month by a fund's administrator on the market price of the fund's investments.

--By Margot Patrick, Dow Jones Newswires, 28/01/10