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HEDGE FUNDS

REVIEW

Secondary hedge fund trading insight given by latest Hedgebay index

Author: [Margie Lindsay](#)

Source: [Hedge Funds Review](#) | 22 Feb 2010

Insight into the average discount to net asset value (NAV) investors are willing to pay for hedge funds that have no side-pockets or for funds of hedge funds that have suspended redemptions is provided by a monthly index launched by Hedgebay Trading

The Hedgebay Global Illiquid Asset Index (IAI) gives a breakdown of liquidity data, one of the primary concerns of hedge fund investors. The inability to provide accurate valuations of illiquid assets has emerged as a key factor behind the collapse of several hedge funds over the last two years.

The monthly IAI will be published alongside the Hedgebay Global Hedge Fund Secondary Market Index (SMI). The two indexes will be able to give a view of trends in the hedge fund sector and conditions in the overall market.

The SMI provides a gauge of investor confidence levels and a reading on the price for liquidity of performing hedge fund assets among other indicators.

The IAI provides a deeper look at the factors affecting investors' valuation of assets that have no contractual redemption terms. The IAI can also be used to highlight trends in the secondary market and could potentially predict conditions of stress on the markets.

"Understanding how much it costs to monetise illiquid positions is key to market recovery," noted Elias Tueta, co-founder of Hedgebay.

"Performance of the primary hedge fund market over recent months may suggest that the industry is back to full force, but in reality this is a false dawn. This strong performance shadows the fact that every portfolio still holds a certain percentage of illiquid assets and it is how investors deal with these illiquid assets on their books that will really dictate when the market recovers," he added.

Although investors are showing confidence in liquid assets, the emergence of a two-tier market reflects uncertainty about how investors can clear their balance sheets of illiquid assets."

The January 2010 IAI showed an average price for illiquid assets at a 43% discount to NAV, a small rise from the end of 2009. The average price for illiquid assets has held relatively steady over the last three months.

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This suggests investors are still too wary of the risks illiquid assets represent to move into these assets. As a result trading has focussed heavily on the more liquid assets within the market

The January SMI recorded the average price for traded assets rising by eight points from December 2009's low average of 79% of NAV. While heavy trading in liquid assets drove the average price to 87%, dispersion between highest and lowest trades increased again.

There was substantial trading at the lower end of the price scale, with the lowest trade occurring at just 29% of NAV. This movement at the bottom of the market was motivated largely by the illiquidity concerns.

The IAI and SMI primarily target investors in hedge funds, such as FoHFs, pension funds, endowments, foundations, insurance companies, family offices, wealth managers and high net worth individuals.

Hedgebay provides hedge funds with a market to trade positions by matching buyers with sellers.

Participants in the secondary market generally look to capitalise on two major themes: liquidity and access to highly sought-after fund managers.

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