

# The Hedgebay Chronicle

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## Secondary Market Activity Summary –February 2006

February saw the continuation of a trend that started last October, the need for and the willingness to pay for greater liquidity. Historically, around 15% of Hedgebay’s volume has been transacted at a discount. The last 5 months have seen this percentage average almost 45%.

On the premium side of the ledger long/short was the most in-demand strategy of the month. On the discount side, general liquidity plays were overshadowed by distressed situations.

### Relative value:

Names traded at discount and premium based on liquidity and scarcity.

### Security Selection:

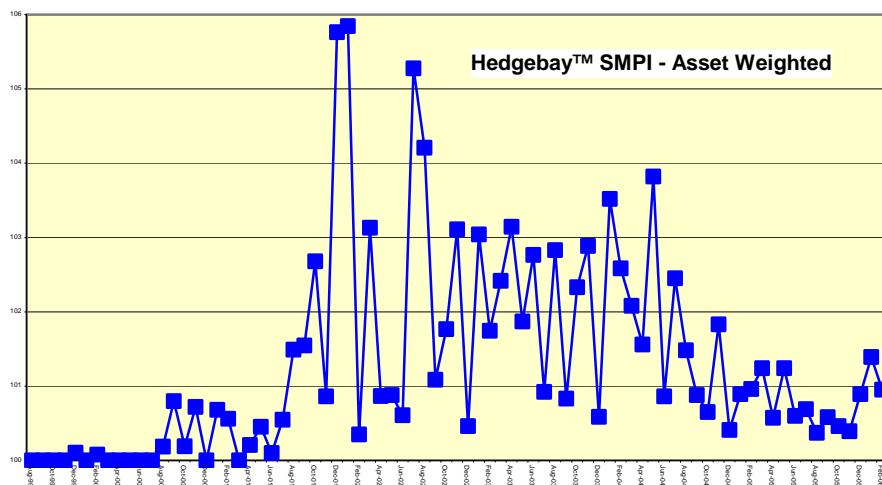
Heaviest activity seen in a while with bids for many names maintaining their levels.

### Directional Trading:

Continuing the trend of the last few months, bids were muted with longer liquidity names changing hands at discount.

### Other:

## Secondary Market Liquidity Indices



### Premium Index Values (SMPI)

Composite Index	100.95
Relative Value	100.86
Security Selection	101.12
Directional Trading	100.00

### Discount Index Values (SMDI)

Composite	89.07
< 3 Months	n/a
3 to 6 Months	n/a
6 to 12 Months	98.50
12 to 24 Months	97.00
None and/or Distressed	57.03

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The Hedgebay Secondary Market Premium Index (SMPI) is a proprietary, asset-weighted index that describes the average premium paid for hedge funds that trade in the secondary market in any given month. An investor may wish to use the index as a sentiment indicator to describe hedge fund investors’ future expectations for performance as well as a benchmarking tool for hedge fund investors to assess latent value in their portfolios.

The Hedgebay Secondary Market Discount Index (SMDI) is a proprietary, asset-weighted index that describes the average discount required to liquidate hedge funds in the secondary market in any given month. An investor may wish to use the index and sub-indices as indicators of the cost of liquidity.

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