

The Hedgebay Chronicle

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Secondary Market Activity Summary –January 2006

Optimism appeared to return in January with investors pushing the SMPI to its highest levels in over a year. Results for the SMDI also bear this out as investors paid up even for longer term liquidity constraints.

Balance sheet mending was still on the minds of many investors, but the sense of urgency seen in December was not matched in January.

Relative value:

Achieved the highest levels of premium this month over a variety of names.

Security Selection:

Lighter activity this month with firm bids remaining.

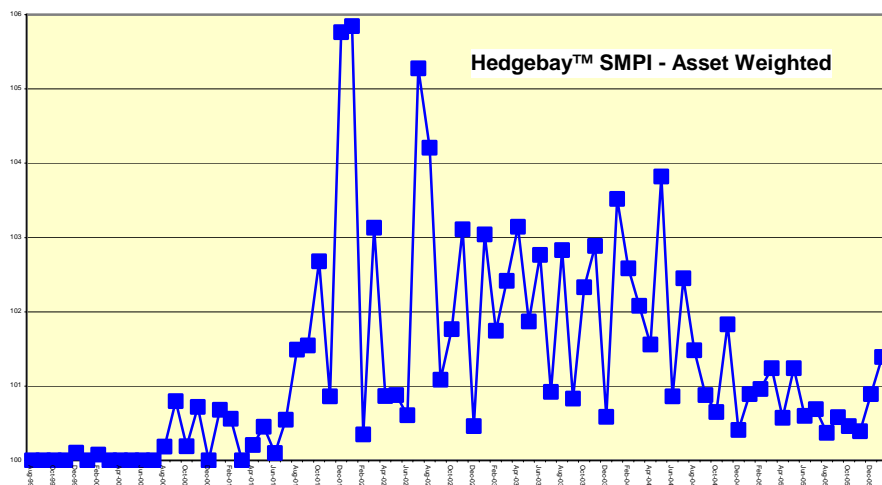
Directional Trading:

Bids were muted this month with longer liquidity names changing hands at discount.

Other:

Demand has increased for situations with Refco exposure. Bids are stable to firming for the recent disasters.

Secondary Market Liquidity Indices



Premium Index Values (SMPI)

Composite Index	101.39
Relative Value	101.45
Security Selection	100.88
Directional Trading	100.00

Discount Index Values (SMDI)

Composite	99.01
< 3 Months	99.50
3 to 6 Months	n/a
6 to 12 Months	99.80
12 to 24 Months	95.00
None and/or Distressed	70.00

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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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