

The Hedgebay Chronicle

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Secondary Market Activity Summary – July 2006

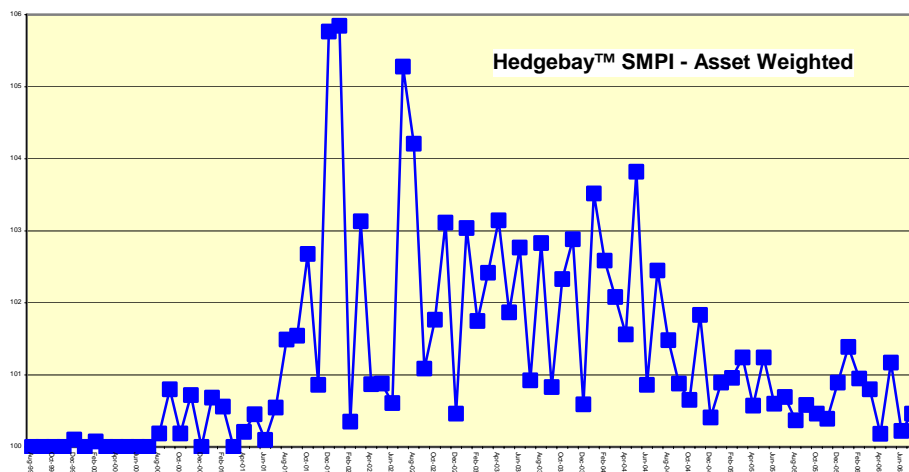
July, which is historically our quietest month –for obvious reasons– was the busiest of the year. Continued volatility across many strategies was, from our perspective, the largest reason why. In years passed, investors experienced “one off” down months rather than strings of them as we have this year. As a result, investors have recognized the value of being able to sell today when they determine that selling is the right decision.

Premiums, like last month, were hard to come by, with the high end topping out at 1%. The discount side of the market was much more active with almost 60% of the month’s volume trading below NAV. Unlike May and June when high-quality, longer-dated paper traded at NAV, July saw mostly extremely illiquid shares trading hands as can be easily seen in this month’s SMDI index value below.

Distressed issue prices were stable other than for Bristol, which had some disappointing news from its liquidator delaying any distributions for the immediate future.

On other fronts, some private equity changed hands at reasonable prices and some private company securities went on offer – rewarding us for our efforts in developing markets for other illiquid securities.

Secondary Market Liquidity Indices



Premium Index Values (SMPI)

Composite Index	100.46
Relative Value	100.46
Security Selection	100.00
Directional Trading	100.00

Discount Index Values (SMDI)

Composite	25.75
< 3 Months	97.39
3 to 6 Months	n/a
6 to 12 Months	n/a
12 to 24 Months	n/a
None and/or Distressed	8.97

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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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