

# The Hedgebay Chronicle

Vol IV...No 9

October 4<sup>th</sup>, 2007

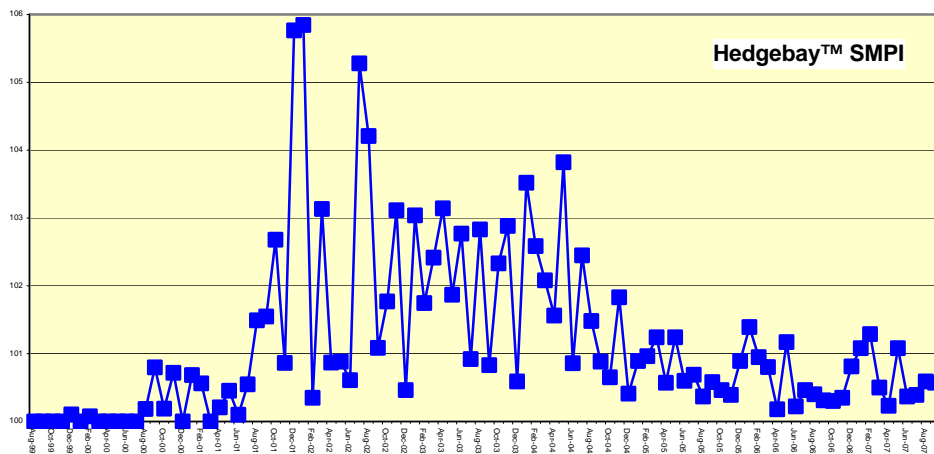
## Secondary Market Activity Summary – September 2007

September was a month where investors were split into two camps. On the one hand, there were those who were on the sidelines, but only for now, as they expect to have moves to make once the fourth quarter gets underway. On the other hand, there were those who felt that now was the time to take exposure levels down and get liquidity before the year-end rush.

Given this sentiment, it is not surprising then, that 50% of September's volume took place at a discount to NAV. As for the balance of September's volume, just under 15% of trades took place at NAV, with the remaining roughly 35% trading at a premium. Although it might seem somewhat counterintuitive for there to be any premiums given the current degree of market uncertainty, premiums held firm in September, with levels reaching as high as 1%.

What seems clear is that the real selling hasn't started yet, but that it is certainly poised and ready. Whether it will or wont will largely be a function of performance for September up and through mid-November as the hedge fund industry's collective marketing departments assuage investor concerns. Either way, it should be an interesting 4<sup>th</sup> quarter.

## Secondary Market Liquidity Indices



### Premium Index Values (SMPI)

Composite Index	100.57
Relative Value	101.00
Security Selection	100.00
Directional Trading	100.42
Specialist Credit	100.25

### Discount Index Values (SMDI)

Composite	90.52
< 3 Months	98.50
3 to 6 Months	n/a
6 to 12 Months	98.50
12 to 24 Months	98.72
None and/or Distressed	50.68

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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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