

The Hedgebay Chronicle

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Secondary Market Activity Summary – October 2007

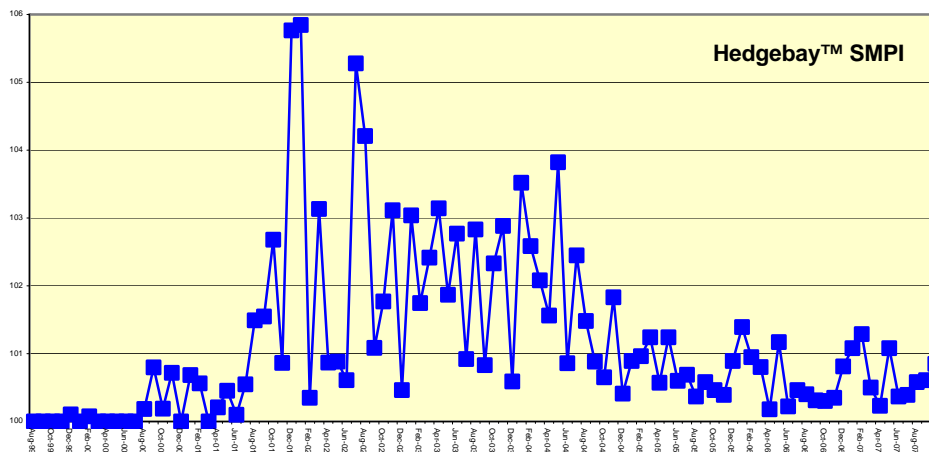
What a difference a month makes. Or, is it out of sight, out of mind? Either way it wasn't long ago that hedge funds were about to be thrown out with the proverbial bath water. Of course there is nothing like a little positive performance to raise our spirits and boost investor sentiment.

As is common in the secondary market, after periods of instability there is a raft of activity resulting from investor desire or need to rebalance positions and portfolios. October was no exception and volumes were heavy.

On the premium side of the market, checkbooks opened up with levels reaching as high as 3%. However, the only premiums that were paid were for long/short equity strategies. Everything else traded at par or at a discount. Perhaps this is an indication of investor wariness of complicated or black box strategies and a return to simpler proven equity managers.

On the discount side of the market, October marked the fourth consecutive month that at least 50% of secondary volume transacted on the discount side. Combine that fact with the current level of funds offered at a discount (the largest ever) and it seems clear that this trend will certainly continue.

Secondary Market Liquidity Indices



Premium Index Values (SMPI)

Composite Index	100.85
Relative Value	100.00
Security Selection	100.97
Directional Trading	100.00
Specialist Credit	100.00

Discount Index Values (SMDI)

Composite	64.98
< 3 Months	98.04
3 to 6 Months	n/a
6 to 12 Months	n/a
12 to 24 Months	97.54
None and/or Distressed	43.90

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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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