

# The Hedgebay Chronicle

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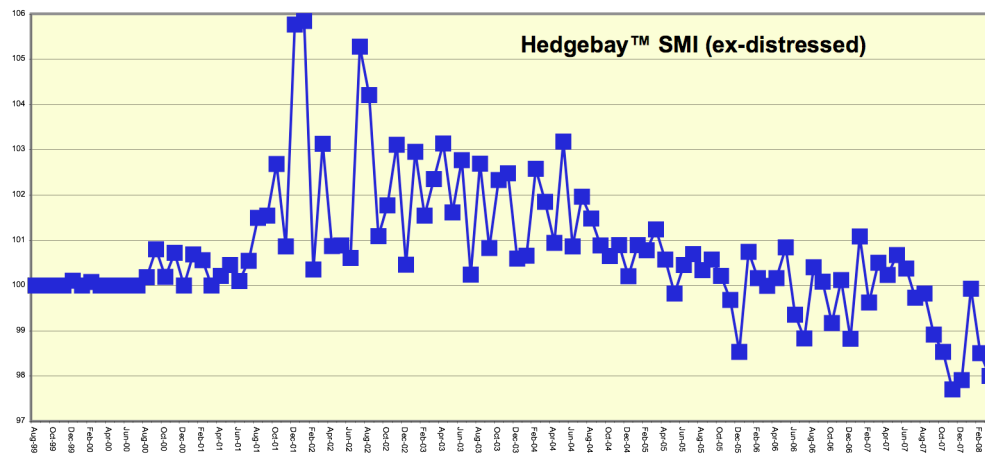
## Secondary Market Activity Summary – March 2008

March, in terms of secondary market activity, was record setting from multiple perspectives. Certainly, the credit crisis that started last year has been a major influencer as it created a ripple effect that now affects a multitude of hedge funds and their investors. The combination of rising collateral requirements and sub-par performance has been too much for some funds to cope with and the result has been an unprecedented number of funds suspending redemption privileges. With market volatility at extreme levels, the demand for liquidity for either risk mitigation purposes or for alleviating asset liability mismatches has been intense.

Unlike the first two months of the year when investors were selling high quality, liquid assets at NAV or higher, March saw effectively 80% of all transactions take place at a discount. Prices ranged between 100bp and 1300bp for funds with future liquidity dates ranging out to 24 months. In fact, the SMDI Index values present a somewhat obvious, but still instructive, description of the cost of liquidity based on the amount of time until ultimate redemption could be achieved.

While the dispersion of prices during the month is the largest seen for non-blow ups, the mean (270bp) was far closer to the top end of the range than the bottom. 270bp seems like a trifle to give up when compared to the magnitude of losses that have been delivered in the first quarter of this year. To be clear, this has nothing to do with distress, just sound risk management. The philosophy of “we don’t sell at discount, we can get out in 90 days” is waning and is being replaced by a more pragmatic assessment of the market risk of hedge funds.

## Secondary Market Liquidity Indices



### Secondary Market Index Values (SMI)

Composite Value 98.09

### Premium Index Values (SMPI)

Relative Value 100.00  
 Security Selection 100.80  
 Directional Trading 100.00  
 Specialist Credit 100.58

### Discount Index Values (SMDI)

< 3 Months 98.62  
 3 to 6 Months 96.50  
 6 to 12 Months 98.78  
 12 to 24 Months 92.32  
 None and/or Distressed 49.06

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The Hedgebay Secondary Market Index (SMI) is a proprietary, asset-weighted index that describes the average premium or discount 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, a benchmarking tool for hedge fund investors to assess latent value in their portfolios or as indicators of the cost of liquidity.

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