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Secondary Market Activity Summary – May 2008

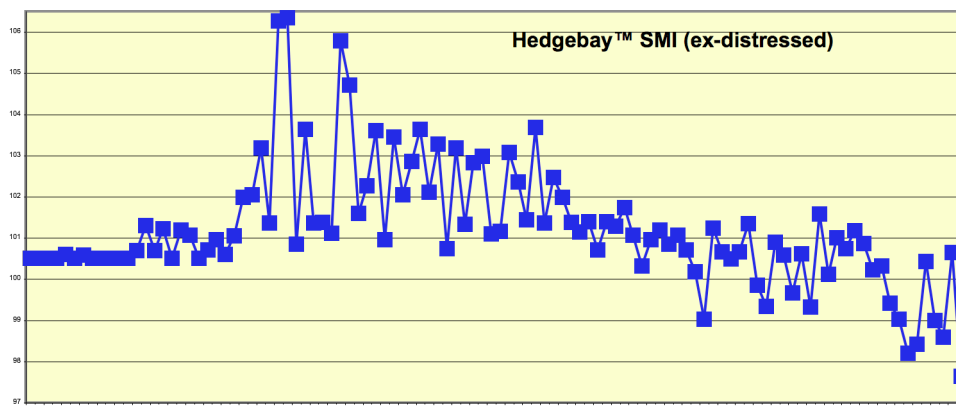
With more than 70% of transactions taking place at a discount and only one taking place at a premium, May was a month in which investors looked to increase the overall liquidity profile of their portfolios. Of note, the SMI made new all time lows for the month. More importantly though these lows were done so on substantial volume with the month ranking 6th best, which when taken together, could potentially foreshadow lower overall industry returns.

On the premium side of the market, there was a marked absence of buyers willing to pay a premium for anything. The current “wide-open” status of almost all hedge funds is the primary reason. The sole premium transaction was in the long/short area at 75bp.

On the discount side, medium-term liquidity was more heavily offered, followed by longer dated liquidity. Very little was done in short dated liquidity given the proximity to quarter end. As can be seen from the various time frame indices for the SMDI below, the cost of liquidity ranged from 1% to as much as 9% depending on the time to ultimate liquidity as well as the level of “issues” that a particular fund might be experiencing.

As the summer kicks off, all eyes are on the surprising buoyancy of global markets, which it appears some are using to sell what they can before the next leg down causes prices to head even further south.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 97.14

Premium Index Values (SMPI)

Relative Value 100.00
Security Selection 100.75
Directional Trading 100.00
Specialist Credit 100.00

Discount Index Values (SMDI)

< 3 Months n/a
3 to 6 Months 98.86
6 to 12 Months 97.53
12 to 24 Months 90.66
None and/or Distressed 32.50

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