

The Hedgebay Chronicle

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Secondary Market Activity Summary – July 2008

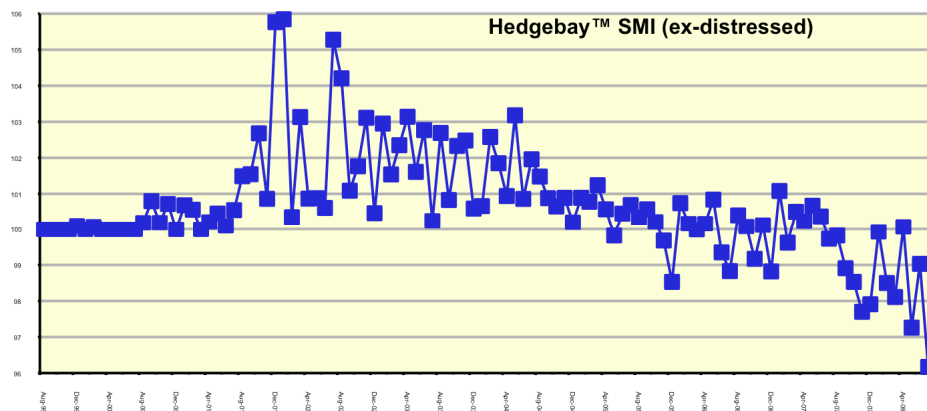
The good news is that July is finally in the rear view mirror. For the month, the SMI declined to its lowest level ever, potentially foreshadowing even lower overall hedge fund returns going forward. For the fourth time in five months, greater than 70% of all transactions were done at a discount to NAV; bringing the year-to-date total of all trades done at a discount to 63%, the highest level ever.

Activity during the month was concentrated in assets that were either highly illiquid (side pockets, restructurings and liquidations) or funds that had medium term (6 to 12 months) liquidity events. The dispersion of prices for these discounted transactions ranged from 300bp to as much as 5000bp (50%).

Unlike June, when there were no transactions higher than NAV, July saw a couple of trades at a premium. It was surprising that any trades at all took place at a premium in the current market environment as the vast majority of sellers that offered shares for sale above NAV were left disappointed.

Worth noting is the degree to which hedge fund investors have adapted to the new risk paradigm they currently find themselves in. While some stubbornly cling to the old mantra of not selling at a discount, many have learned to calculate the present value of the risk (market, manager, gate, suspension, liquidation etc) they take by holding a hedge fund.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 96.17

Premium Index Values (SMPI)

Relative Value 100.00
Security Selection 101.00
Directional Trading 100.00
Specialist Credit 100.00

Discount Index Values (SMDI)

< 3 Months n/a
3 to 6 Months 94.94
6 to 12 Months n/a
12 to 24 Months n/a
None and/or Distressed 64.01

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