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Secondary Market Activity Summary – July 2008

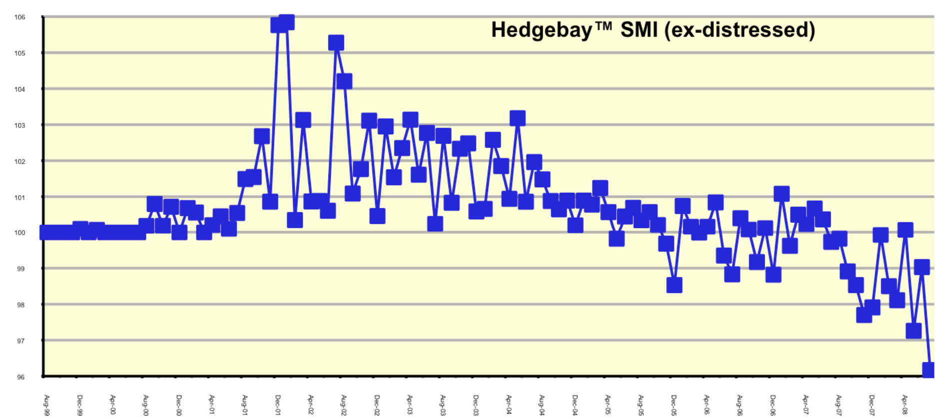
The good news is that July is finally in the rear view mirror. For the month, the SMI declined to its lowest level ever, potentially foreshadowing even lower overall hedge fund returns going forward. For the fourth time in five months, greater than 70% of all transactions were done at a discount to NAV;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

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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