The Hedgebay Chronicle

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Secondary Market Activity Summary – August 2008

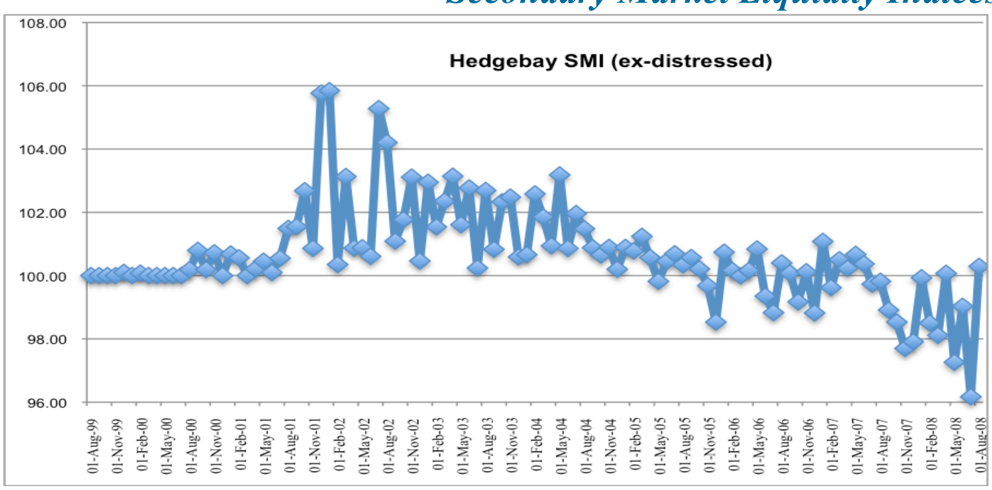
Not everyone was on vacation in August as evidenced by the month being the third busiest of the year. In addition, while many would have expected a continuation of the discounted selling that has occurred for the past 3 months, August witnessed the average transaction closing at a premium, the highest since June of 2007 (see SMI below).

The most likely explanation for this is a repeat of the phenomenon that occurred at the beginning of the year, a difficult time in the hedge fund market when investors chose to sell their most liquid and most desirable assets at a premium rather than sell their illiquid or troubled assets at a discount in order to preserve their track records or to avoid the psychological trauma that comes with closing the book on a bad decision.

On the premium side of the market, investors were selectively willing to pay NAV or higher for global macro and long/short equity. The top end of the range was 100bp.

On the discount side, transactions were equally distributed between funds that had relatively short durations to liquidity or funds that had no liquidity. Given the proximity to September 30, it is highly likely that redemption flows are known and have been addressed through the traditional redemption process. Worth noting here, is the extent to which future returns are expected to be lower in the near term by those that sold during the month. (An inference made by their willingness to sell at a discount so close to the "expected" liquidity date). Perhaps the number of suspensions experienced this year has engendered a new behavioral pattern for redeemers of hedge funds?

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)	
Composite Value	100.29
Premium Index Values (SMPI)	
Relative Value	100.00
Security Selection	100.00
Directional Trading	100.80
Specialist Credit	100.00
Discount Index Values (SMDI)	
< 3 Months	99.21
3 to 6 Months	n/a
6 to 12 Months	n/a
12 to 24 Months	n/a
None and/or Distressed	67.82

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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