

# The Hedgebay Chronicle

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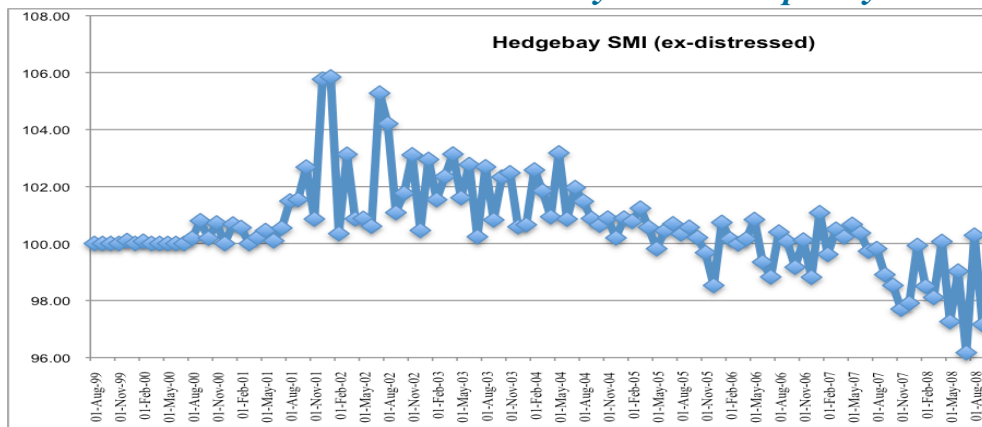
## Secondary Market Activity Summary – September 2008

With no premium trades taking place during the course of the month, the average transaction was done with more than a 280bp discount. Only two funds managed to be traded at par and these were funds that have been hard closed for a very long time, are very liquid and have performed well. On the discount side, volume was split almost equally between funds that have or are undergoing some kind of restructuring and funds that are normally operating, but have some degree of illiquidity.

With the fear of 25-35 percent redemption levels for year-end looming, it is abundantly clear that some funds will not be able to recover and a massive hedge fund liquidation and consolidation phase is about to commence in earnest (if it hasn't already). While most are pointing the finger at fund of funds as the culprits, the reality which few are talking about is that pension funds and endowments are also heavy sellers as they look for ways to monetize assets to fund spending requirements or their previous commitments to private equity.

October **SHOULD** be the month when investors accept the reality that they are in and sell now what needs to be sold to ensure that they have the liquidity they require rather than hope that funds they have placed redemptions for do not gate or suspend. Furthermore, come December, the number of real contrarians who are actually prepared to buy **AND** who have cash that they can spend will be miniscule and as a result those that have rolled the dice will find the prices a lot lower than the scary looking graph below.

## Secondary Market Liquidity Indices



### Secondary Market Index Values (SMI)

Composite Value 97.16

### Premium Index Values (SMPI)

Relative Value 100.00  
Security Selection n/a  
Directional Trading 100.00  
Specialist Credit n/a

### Discount Index Values (SMDI)

< 3 Months 99.00  
3 to 6 Months 90.00  
6 to 12 Months 76.00  
12 to 24 Months n/a  
None and/or Distressed 75.90

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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