

# The Hedgebay Chronicle

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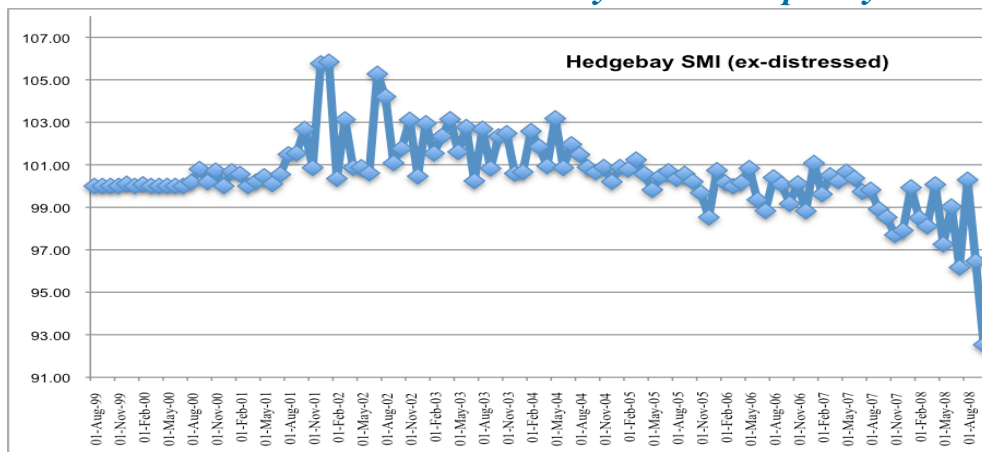
## Secondary Market Activity Summary – October 2008

October was the first month in which 100% of transactions took place at a discount to NAV. Year to date, more than 65% of transactions have taken place at a discount, a 30% increase over last year. It is not surprising, therefore, that the SMI posted its lowest value ever (see graph below).

Supply, understandably, is far greater than it has been historically with investors exiting entire positions rather than rebalancing positions as they had been doing in the past. The good news is that there are buyers for these larger positions. The less good news is that prices have moved lower as opportunities have to compete for capital rather than capital competing for opportunities, as it used to.

Worthy of noting here is the extent to which investors have caught on to the reality that there is a material overhang of redemptions in the system and what that reality will mean for future capital investment into funds. In brief, investors will prefer to buy at discount as well as capture the highwater mark's and reduced lock ups - rather than subscribe fresh capital with no highwater mark and a full lock up – as long as that overhang persists. This is healthy for investors as well as managers as investors will be rewarded for their well placed conviction and managers will reduce pressure on their funds and can focus on managing capital in a very difficult environment.

## Secondary Market Liquidity Indices



### Secondary Market Index Values (SMI)

Composite Value 92.53

### Premium Index Values (SMPI)

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

### Discount Index Values (SMDI)

< 3 Months 92.90  
 3 to 6 Months 91.94  
 6 to 12 Months 61.00  
 12 to 24 Months n/a  
 None and/or Distressed 25.00

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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