The Hedgebay Chronicle

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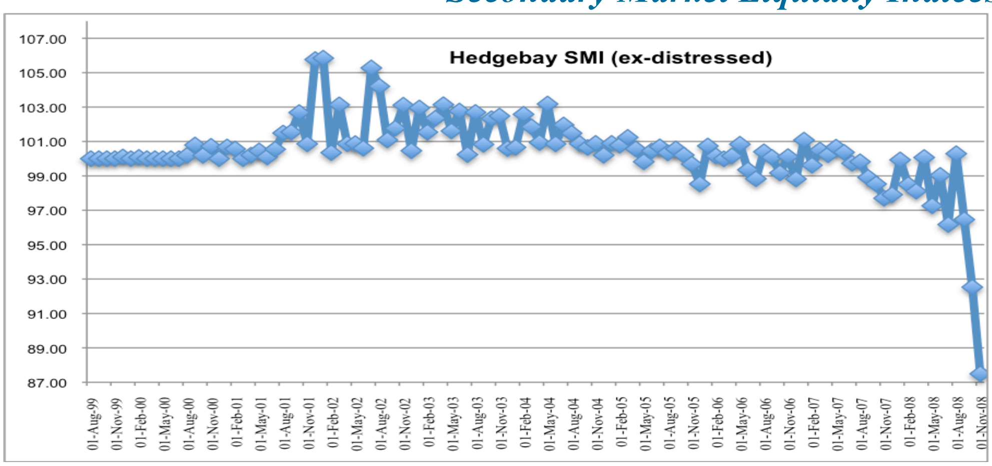
Secondary Market Activity Summary – November 2008

November saw the continued deterioration of prices in the secondary market with 100% of transactions taking place at a discount to NAV for the second month in a row. The average cost of obtaining liquidity from normally operating funds – funds that were not gated or suspended – dropped from roughly 7.50% to a little more that 12.50%.

Most would suggest that sellers at these levels are distressed or forced. The reality is that the sellers in November have acknowledged the risks that exist in the market today: potential for suspension of redemptions, write down of illiquid assets in front of FAS 157 for year-end, market volatility and a global recession and are being proactive about reducing or eliminating these risks. Take suspension of redemptions (known as a restructuring today), which research shows costs investors on average 15% of their equity (see Locked Up by a Lockup by Andrew Ang and Nicolas Bolen). As a result, investors are now calculating the present value of these risks and determining the price at which selling today makes sense.

While looking forward is an interesting exercise, in this environment the only thing that can be reasonably relied upon is to expect the unexpected. That has been the case for 2008 with one unanticipated event after another materializing. The unanswered questions are: when will the banks that levered fund of funds be forced sellers (as opposed to mandatory redeemers) and how long will it take for those funds that have "restructured" to liquidate their illiquid assets? What is known is that there are buyers, although fewer than earlier this year, for all manner of funds.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)	
Composite Value	87.49
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	91.00
3 to 6 Months	n/a
6 to 12 Months	89.95
12 to 24 Months	79.39
None and/or Distressed	62.19

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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