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Secondary Market Activity Summary – December 2008

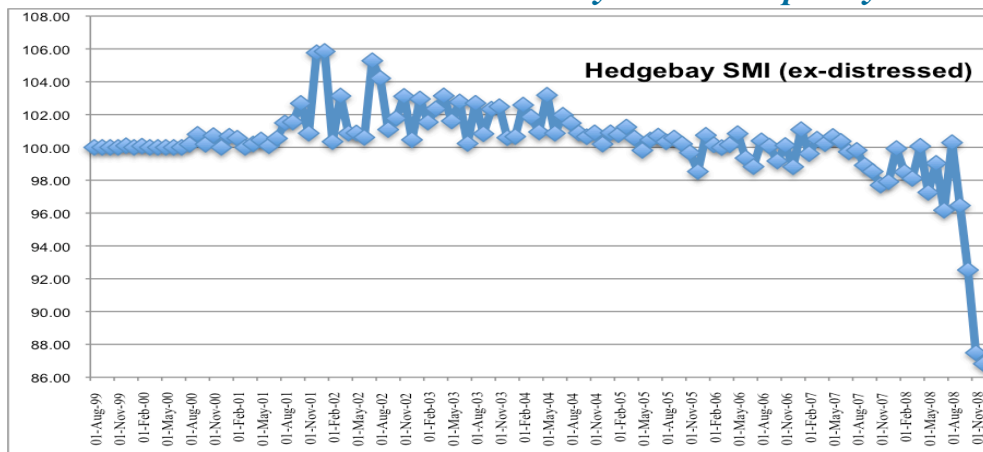
December was, not surprisingly, hectic. Trades were being closed right up until the last business day of the year with prices generally stable but still falling setting new record low levels. The average discount for a fund that had not suspended redemption rights was a little more than 13 percent.

For the year, volume almost doubled from 2007 levels. In addition, more than 71% of all trades were done at a discount to NAV, which contrasts sharply with 2005 when that was roughly the percentage of trades that took place at NAV or higher.

In November we advised to expect the unexpected and that is just what we got in December from Bernie. Even fund of funds with no direct exposure felt the disastrous repercussions as investors clambered for the exits exacerbating an already tenuous liquidity situation at most hedge funds.

Its hard to see 2009, at least in the early stages, being any better than 2008. There is a staggering amount of hedge fund shares that have gone unredeemed creating a huge overhang of stock that will keep pressure on secondary prices for a while to come. Managers and investors both agree that until this overhang is dealt with it will be difficult, if not impossible, to raise new capital.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 86.82

Premium Index Values (SMPI)

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

Discount Index Values (SMDI)

< 3 Months 95.00
3 to 6 Months 85.00
6 to 12 Months 94.29
12 to 24 Months 85.28
None and/or Distressed 56.31

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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