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Secondary Market Activity Summary – January 2009

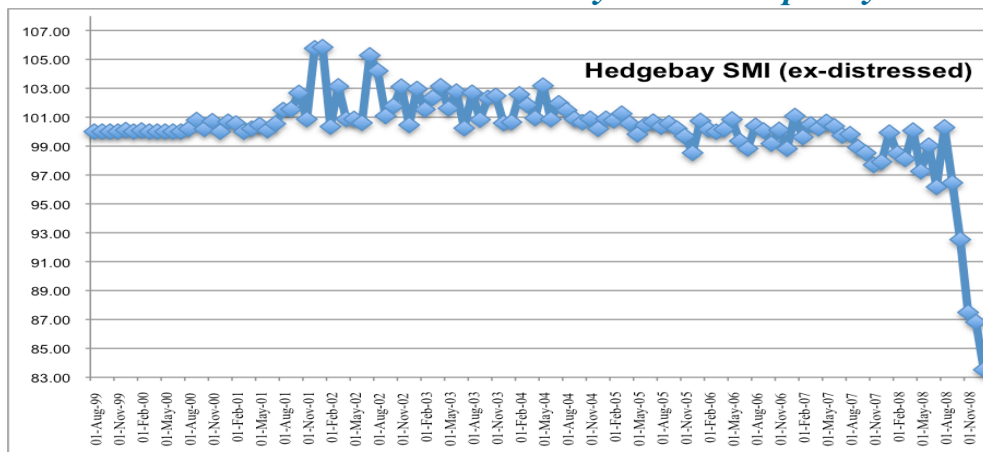
Pricing continued to soften in January on strong volume. Average discount levels, for funds that had not suspended redemption rights, surpassed 16% in January with all trades taking place at a discount.

Not much has changed in the last 30 days; supply is still overwhelming demand and buyers that actually have cash are extremely scarce. This fact has had a major impact on pricing in the secondary market since the natural buyer – the fund of funds with cash rolling in – no longer exists.

In large part, it seems that much of the hedge fund industry’s fate lies in the fate of the credit markets. Recovery will allow prices to improve and get back to “model” levels, positions can be liquidated and the pressure will be off. Stagnation or further declines will have dire ramifications for funds that have suspended or restructured.

With these outcomes being binary it is unlikely to see much room to the upside for secondary market prices until there is some sustained, positive performance. Until then, investors in hedge funds will have to decide whether to roll the dice and hope for the best or to trade out and wait for better days.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 83.52

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 98.62
 3 to 6 Months n/a
 6 to 12 Months 85.28
 12 to 24 Months 80.30
 None and/or Distressed 81.08

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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