The Hedgebay Chronicle

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Secondary Market Activity Summary – February 2009

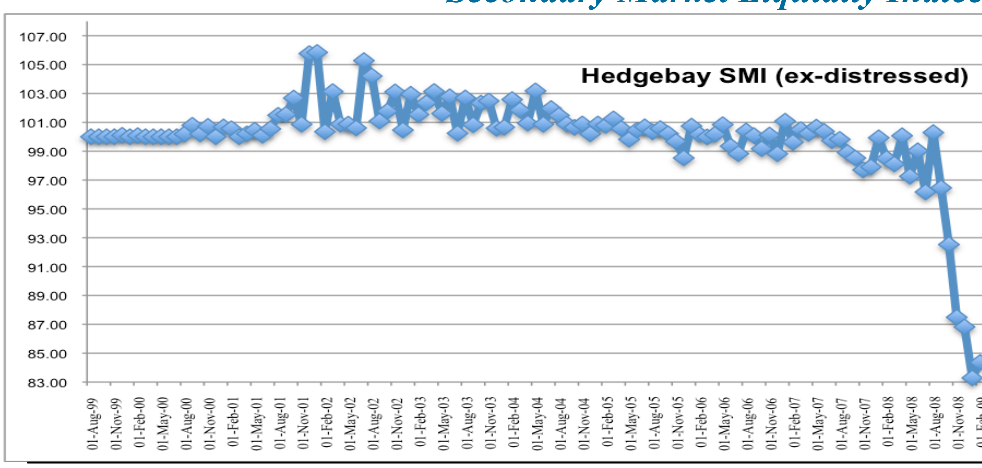
February's activity was an interesting mix of funds that ranged from normally operating to suspended. Pricing was slightly better than January with volume about 25% ahead of last year's pace for the first two months. Average discount levels, for funds that had not suspended redemption rights, was a little over 15% in January with all trades taking place at a discount. In fact, there has only been one trade at NAV in the last 6 months.

Based on numerous conversations with investors, the real issue in terms of demand is not the availability of cash, but rather the lack of conviction investors have about the state of the markets. This phenomenon can be broken down further into 2 categories. First, which strategies will succeed in the short to medium term and second, will there be any unanticipated liabilities (either in the form of further redemptions or possibly capital calls from private equity commitments) to be satisfied in the short to medium term.

The result of this is that investors who actually have the stomach to take risk need to be highly compensated for doing so. Furthermore, investors who are allocating (an alarmingly small number) are doing so to liquid strategies rather than illiquid, which is putting even more pressure on pricing at the least liquid end (aka suspended redemption situations) of the spectrum.

What's next? Capitulation selling hasn't occurred yet. Until that happens we can rest assured that the bottom hasn't been put in. Any bounce in the market should therefore be treated as a golden opportunity to monetize positions with limited sensitivity to pricing; as the pricing environment is likely to get worse before it gets significantly better.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value	84.36

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	98.29
3 to 6 Months	n/a
6 to 12 Months	87.78
12 to 24 Months	80.65
None and/or Distressed	67.29

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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