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Hedgebay sees rise in discounted hedge fund asset trading in Q1 2009

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Latest figures from secondary hedge fund market provider Hedgebay Trading show that despite a 20 per cent year over year increase in trading of hedge fund assets through 31 March, not one trade occurred at or above NAV.

This compares with over 92 per cent of trades occurring at NAV or higher in 2003, a massive decline in just five years.

Elias Tueta, co-founder, says: 'Negative market sentiment and the need for liquidity has seen the pricing of hedge fund shares plummet over the past six months."

Tueta says 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. He says this phenomenon can be broken down further into two categories - performance and risk.

'Investors are trying to sort out which strategies will succeed in the short to medium term and to anticipate any liabilities - either in the form of further redemptions or possible capital calls from private equity commitments. Given the current level of volatility, these are incredibly difficult calls to make.'

Tueta believes that the result of this situation is that investors who have cash and the willingness to take risk will need to be highly compensated for doing so. Furthermore, investors who are allocating to hedge funds are migrating to liquid strategies rather than illiquid, which is putting even more pressure on pricing at the less liquid end of the spectrum.

Notwithstanding the general negative sentiment in the investment universe, Tueta says capitulation selling has not occurred yet and he does not believe a bottom has been put in on the markets or for prices of shares in the hedge fund secondary market.

'There have been no fire sales yet which leads me to believe that there will be a new low at some point in the future. A bounce in the market, like the one we experienced in March, might be a golden opportunity to monetise positions. Investors who share this expectation should have limited sensitivity to pricing, as the pricing environment is likely to get worse before it gets better.'

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