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Secondary Market Activity Summary – April 2009

Hedge Fund Discounts Narrow as Investors Loosened their Purse Strings

April saw the average price of hedge funds traded on the secondary market appreciate materially for the first time in seven months – with the average price rising approximately 11% for funds that had not suspended redemption rights. This figure is almost 1000 bps higher than in March.

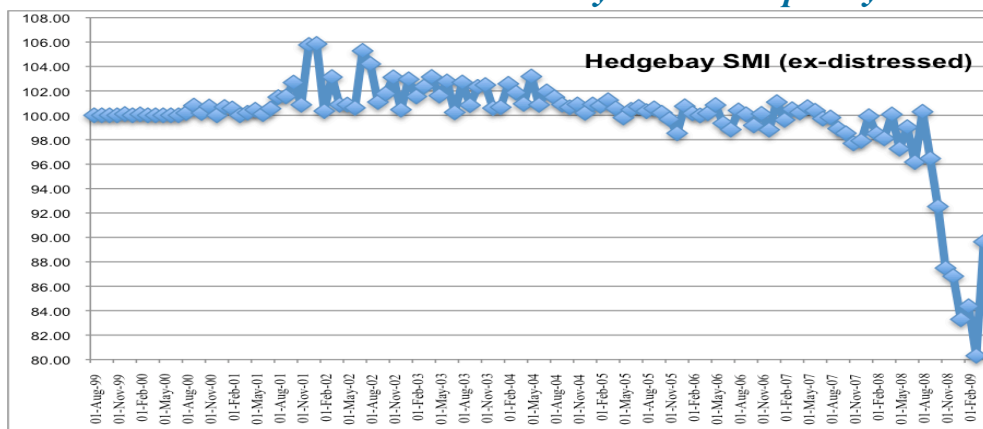
Notwithstanding this surge in prices, all trades took place at a discount to NAV for the fifth month in a row.

Volume was lighter in April, coming off of a very heavy quarter end, but transaction frequency continues to be at the upper end of historic ranges. Overall, volume levels remain at an approximately 20% higher level year over year.

Unlike last month when it was difficult to discern whether transaction volume was being driven more by confidence or fear, this month it seemed abundantly clear that sustained higher levels in global markets have loosened the purse strings a little. As a result, fund of funds are sitting on ever increasing cash levels which they are beginning to feel compelled to reduce.

With every yin, however, there is a yang. The yang in April was sellers raising the levels at which they were prepared to sell assets, hence the dramatically higher levels in the SMI. While this generally was acceptable to those investors looking to put capital to work, there were a number of transactions that didn't get done due to the resurgence of irrational exuberance.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 89.64

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 95.00
3 to 6 Months 92.00
6 to 12 Months 79.97
12 to 24 Months 93.98
None and/or Distressed 74.99

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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