

The Hedgebay Chronicle

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Secondary Market Activity Summary – June 2009

Hedge Fund Prices Falter as Sellers do the Math

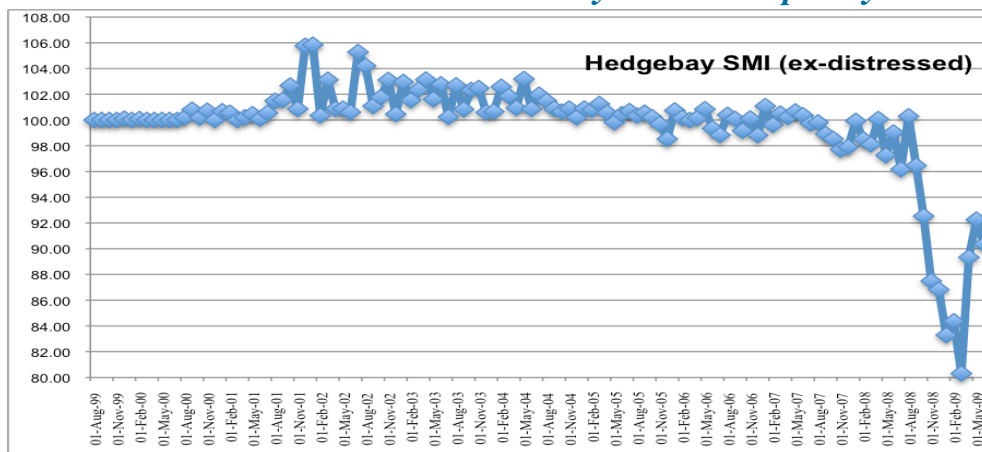
June busy with nearly 4 times the amount of volume that transacted in May going through during the month. Additionally, prices declined approximately 200 basis points to average at roughly a 10% discount (for the average fund that hadn't suspended redemption rights). June also marked the 6th consecutive month and 8th out of the last 9 months where all transactions took place at a discount to NAV.

Volume year to date is slightly ahead of volume for the same 6-month period last year, however transaction numbers are substantially ahead of last years pace, most likely proving the more wide spread need for liquidity across a wide variety of funds.

Worth noting is the extent to which there were no trades on the shorter end of the time to liquidity spectrum. It seems probable that liquidity that was needed was taken from this category earlier in the year, either directly or via secondary, and now what is left are the more illiquid residuals.

As a result, clients who are not necessarily “in need” of cash are making a present value calculation based on the inherent risks – including market, manager and business – as well as the probability of recovery for any particular asset. Armed with this information they are able to make rational rather than emotional decisions about trading out.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 90.13

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 n/a
3 to 6 Months n/a
6 to 12 Months 75.00
12 to 24 Months 90.33
None and/or Distressed 27.00

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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