

The Hedgebay Chronicle

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Secondary Market Activity Summary – August 2009

A glimmer of optimism?

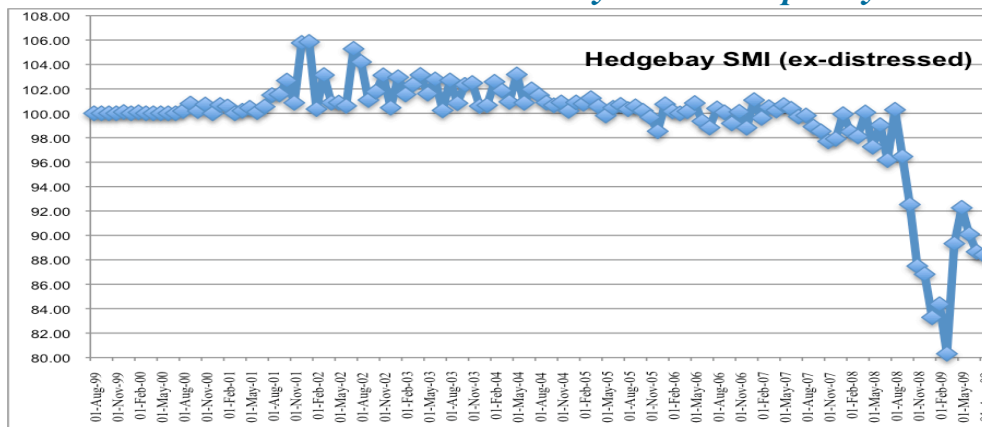
August continued where July left off; another, historically speaking, busiest on record month coupled with slightly lower prices across a variety of strategies. For the month, prices declined approximately 25 basis points from July levels to average at just over an 11.50% discount (for the average fund that hadn't suspended redemption rights).

August, however, did diverge from July in one key respect – it was the first month this year that a transaction took place at NAV. Volume year to date is approximately 15% ahead of volume for the same 8-month period last year.

The fact that something transacted at NAV is worth discussing a little further. Is this the beginning of a return to the good old days or just some random noise? First and foremost, the purchaser valued liquidity very highly. From their perspective, “paying up” to own a very liquid and “closed” fund was worth it. Secondly, the transaction was highly specialized and other motivations were clearly evident. Compared to all of the other transactions, save 3, which took below 90% of NAV, this transaction is an outlier.

While flows have returned to the traditional method of subscribing to hedge funds, there still remains a substantial amount of capital that is tied up in gated or suspended funds. Investors might not be in a hurry to exit for cash needs, but they clearly have expectations about the direction of asset prices and are dealing accordingly.

Secondary Market Liquidity Indices



Secondary Market Index Values (SMI)

Composite Value 88.40

Premium Index Values (SMPI)

Relative Value n/a

Security Selection n/a

Directional Trading 100.00

Specialist Credit n/a

Discount Index Values (SMDI)

< 3 Months n/a

3 to 6 Months 96.77

6 to 12 Months 88.50

12 to 24 Months 86.86

None and/or Distressed 71.99

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