HUME BROPHY

Client: Hedgebay
Source: The Hedge Fund Journal
Date: 5th September 2012

the | hedgefund | journal

Secondary market can offer permanent capital

Secondary market platforms can provide hedge fund managers with a permanent source of funding, according to Hedgebay.

A recent survey on the private placement industry by trading and risk solutions provider Simplify LLC, which polled around 500 private placement users, showed that 100% of respondents had traded hedge fund shares on a secondary basis – showing secondary markets are popular among hedge fund investors.

The survey claimed that private placements are set to double in 2013. However Hedgebay, who were shown to be the most popular broker with 42% of those polled having used their platform, point out that this statistic depends on manager uptake of the secondary market.

"The majority of hedge fund managers have yet to embrace the potential of the secondary market, preferring to handle the private placement process themselves," said Jared Herman, Founder of Hedgebay. "As a result, they don't have access to the range of price offers they could get from a platform, which means they are limiting the chances of getting maximum value from their shares. Volume on the secondary market has increased hugely since the financial crisis, but until managers start taking advantage of secondary trading it is difficult to see how the market will double within the next year."

Moreover, Hedgebay believes that greater manager involvement would lead to further maturation of the secondary market. With broader and more liquid pricing options available, managers would be able to take advantage of a consistent source of funding, known as 'permanent capital'– the ability to protect against redemptions by having access to a constant source of capital.

A number of high profile managers have recently launched publicly listed reinsurance products, providing them with a stable pool of capital that can be invested over long term periods. Hedgebay believes that an evolved secondary market could perform a similar function for all hedge fund managers, giving them instant access to investors in the event of redemptions in their fund.

Link: http://www.thehedgefundjournal.com/news/7979