

Stone Lion Capital Partners Suspends Redemptions in Credit Hedge Funds

Hedge-fund firm gets hit by wave of withdrawal requests, as junk-bond market comes under pressure

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Stone Lion Capital Partners L.P. said it suspended redemptions in its credit hedge funds after many investors asked for their money back.

The move, nearly unprecedented in the hedge-fund industry since the financial crisis, is the latest example of the sudden crunch facing traders across Wall Street looking to sell beaten-down positions. On Thursday, Third Avenue Management LLC stunned investors with the announcement it was barring withdrawals while it liquidates a high-yield bond mutual fund, a move that intensified a selloff sweeping the junk-bond world.

Stone Lion, founded in 2008 by Bear Stearns & Co. Inc. veterans Gregory Hanley and Alan Mintz, is in a similar malaise, facing heavy losses on so-called distressed investments including junk bonds, post reorganization equities and other special situations, people familiar with the matter said.

Its oldest set of credit funds, which manage \$400 million altogether, received “substantial redemption requests,” precipitating the decision, the firm said in a statement. The firm didn’t give a time frame for when the money would be returned.

A Stone Lion spokesman said suspending redemptions was the only way to “ensure fair and equitable treatment for all” investors. The firm continues to operate several other funds, including one that bets on Puerto Rico’s economic recovery.

Stone Lion’s hedge funds were down about 7% through the end of July, when it cut off many prospective investors from receiving updates, people familiar said. In a midyear letter to investors reviewed by The Wall Street Journal, Messrs. Hanley and Mintz professed optimism in the “ultimate recovery figures underpinning our investment theses.”

But the funds have suffered significant losses since then, the people said; investor documents indicate the funds manage 24% less now than they did at the end of July.

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While suspending redemptions has been highly rare in recent years, Stone Lion does have one prominent companion among hard-hit hedge funds this year. Carlyle Group LP's Claren Road Asset Management LLC arm earlier this fall told investors it wouldn't immediately return around two-thirds of the nearly \$2 billion investors requested back. It too has yet to provide a date for when the requests would be fully repaid.