

Hedge Funds

News, analysis and commentary

Bluestone Seeks Emerging Managers

By Hema Parmar

Bluestone Capital Management, the \$2.9 billion registered investment adviser, is seeking up to five emerging managers that focus on niche strategies for its fund of hedge funds, according to founder and portfolio manager **Brian Shevland**. Bluestone may invest a total of \$10 million across the five funds, he said.

The firm especially likes direct lending funds where the loans are asset-backed, but avoids those involved in platform lending, Shevland said in an interview on May 4. "Platforms use uncollateralized debt and you're relying on credit scores, which is not enough collateral to make us sleep well at night," he said.

Direct lending funds are less likely to be impacted by a potential stock market correction. "As equity markets get priced higher, we are looking at earnings estimates getting priced in. But, at some point, we think earnings will miss estimates and so we need to be prepared for that," Shevland said. For that reason, Bluestone is avoiding directional equity funds.

The firm's fund of hedge funds manages \$62 million and is invested in about 26 managers. The Aalii fund, which is named after a Hawaiian flower that can withstand tropical winds, focuses on managers who run between \$100 million and \$1 billion and trade unique strategies uncorrelated to markets, Shevland said.

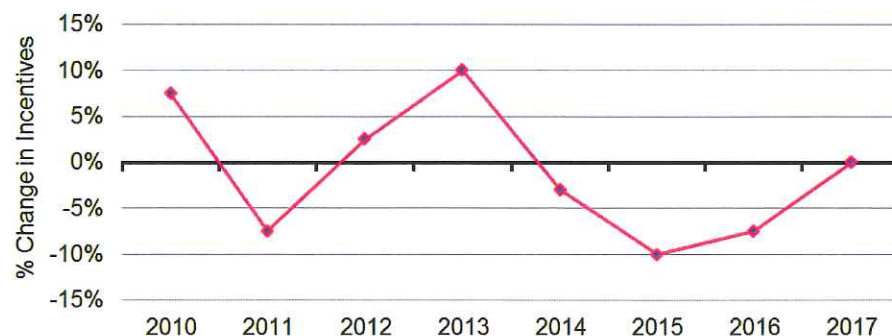
About half of the fund is invested in alternative lending strategies, such as direct lending funds, he said.

Bluestone often starts with a \$500,000 or \$1 million allocation to a new fund and over time may raise that to \$5 million, Shevland said. He prefers emerging managers who have experience performing in high-stress environments such as at some of the large multistrategy hedge funds, he said. The firm also likes managers who have their own money invested as the fund's "first-loss capital."

The Aalii fund typically sees a turnover of two or three managers a year. The due diligence process can take between three and 12 months. The Aalii fund started trading in 2013 and has gained 4.1 percent in the first quarter, according to an investor letter seen by Bloomberg News. Last year, it was up 5.6 percent.

Bluestone is separately expecting to launch a macro hedge fund this summer, with at least \$10 million of primarily external capital, Shevland said. The fund will be managed by Bluestone's three-person internal global macro research team.

Hedge Fund Pay Seen Flat in 2017 After Years of Cuts



Source: Johnson Associates, Inc.

Hedge funds will generally keep compensation flat in 2017 after cutting incentive pay the past few years, according to compensation consultant Johnson Associates. Click [here](#), for more.

**Bloomberg
Briefs**

May 16, 2017

SALT Preview

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Inside

Performance for **Light Street Capital, Maglan, QIM, Balyasny, Quad Group**: [Returns in Brief](#)

EnTrustPermal's Isaac Souede joins **SCP Investment**. **Light Sky** is said to hire Deutsche Bank's **Jerome Saragoussi**: [Fund News](#)

Ray Dalio says the global economy is at equilibrium: [Market Calls](#)

Robin Hood raises \$54.5 million with its New York City benefit: [Over the Hedge](#)

Marinus Capital is said to close after seven years: [Fund News](#)

Quote of the Week

"Rather than continue to search for women- and minority-led funds, we realized that we needed to create them."

— *Seema Hingorani*, chief investment officer of **SevenStep Capital**, which she [formed](#) in April to help women- and minority-led hedge funds get off the ground.

13F Report

Coatue, Third Point, Lone Pine and Soros are among funds that purchased shares of Snap Inc. last quarter: [Read story online](#)