

Teaming with Legato, CalPERS and Colchester, Piedmont Comes Out a Winner

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When Piedmont Investment Advisors, a money management firm based in Durham, North Carolina, was looking for a capital infusion to enhance its product line, strengthen infrastructure and attract new professionals, it turned to strategic partners like Legato Capital Management and Colchester Partners for help. Legato partnered with the California Public Employees' Retirement System (CalPERS), which created the Manager Development Program II. Under the arrangement, Legato finds emerging funds with less than \$2 billion in assets under management, who repeatedly generate sustained alpha. Piedmont, which manages diverse equity and core fixed-income products, was the first one to clear the screening process. "We wanted partners with a good reputation who were respected in the industry, like CalPERS," says Isaac Green, Piedmont's President and Chief Investment Officer.

"Piedmont is precisely what investors look for in a firm: a top team, and results that are in line with a high level of process," says Legato CEO, Victor Hynes. "Performance comes out of all those things, and is what you get when you have the process in place. "It was very clear to us from

day one that Piedmont was a very powerful organization to be aligned with." Through a multi-faceted approach, Legato is able to pull skill sets from all aspects of the capital markets when they perform due diligence on a manager. The skills range from risk management and venture capital, to private equity and compliance, among others.

Through MDP II, CalPERS provided equity capital, investing \$100 million in Piedmont's large-cap product, Market Plus. Legato provides Piedmont with strategic assistance, retains a

board seat and otherwise helps the firm realize its full potential to generate superior investment returns. "CalPERS is first and foremost

looking for structured products that are risk controlled and outperform the benchmark," says Green. "They look for consistency of high performance, relative to risk, that, in Piedmont's case, beats the Standard and Poor's 500."

Strategic Investment Group of Arlington, Virginia, is also a partner to CalPERS in MDPII. Mary Choksi, Managing Director, sees the program as "a powerful partnership between entrepreneurial management groups and a sophisticated institutional investor to bring investment value-added to CalPERS and

business success to emerging firms seeking to enter or build their franchise in the institutional marketplace."

From Start-Up to Powerhouse

Started in August 2000 with \$500,000 in rollover IRAs mainly, Piedmont currently has \$1.5 billion in assets under management. "They use a very disciplined and risk aware process and have a very tight team of investment pros," says Hynes of Legato. Similar to a manager of managers concept, Legato and CalPERS are building a discretionary global portfolio based on the Russell 3000 Index using products from emerging managers with consistent investment performance year after year. Its first component is Piedmont's Market Plus product. "Piedmont has three things: a very powerful investment process, a talented team to execute the process, and a demonstrated manager, Isaac Green, who attracts the best talent."

Cutting the Deal

Once the MDP II deal was offered, Green contacted the investment banking firm Colchester Partners to negotiate the transaction. "We offered strategic advice to Piedmont in raising equity funds for both working capital and repurchasing a portion of the stakes held by outside investors," says Colchester Managing Director Gregory Dimit. "We evaluated all the options and helped Isaac and his team make the right choices." In the transaction, North Carolina Mutual Life Insurance Company and Mutual Community Savings Bank, two sister companies that had provided much of the original capital required to start Piedmont, reduced and liquidated their stakes, respectively.

Although the negotiation was complex, Colchester has the expertise to advise on many moving parts. After working for 20 years in the investment management industry, including 15 years at United Asset Management, and seeing companies in all evolutionary stages, Colchester's purview ranges across buying and selling firms, backing start-up firms, helping teams structure seamless exits from big institutions, and finding capital.

"We've negotiated many transactions and have thought about all these things," says Dimit. "If someone wants to leave a large institution to establish their own firm and doesn't know the steps to take, we help put a business plan in place, package it and find the right equity provider." Colchester closely vets companies that it thinks will be successful and gets paid in equity or hard dollars when they find capital for an emerging firm.