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# CalSTRS Backs Hedge Fund Activist Legion With First Seed Money

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California State Teachers' Retirement System, the second-biggest U.S. public pension system, made its first hedge fund seed investment by committing capital to activist firm Legion Partners Asset Management LLC.

CalSTRS, based in [Sacramento](#), California, pledged \$200 million to Legion in February and took a 30 percent minority stake, investment officer Philip Larrieu, who oversees the pension's allocations to activist managers, said in an interview last week at the SkyBridge Alternatives Conference in Las Vegas.

The pension system, which has about \$4.6 billion with activist managers including Trian Fund Management LP and Relational Investors LLC, is weighing additional investments in the strategy, especially in managers such as Legion that invest in small- and mid-cap companies. Activist investors take stakes in companies and then push for changes aimed at increasing value.

Legion, founded by Ted White, Chris Kiper and Bradley Vizi in 2012, has waged campaigns involving apparel-maker Carter's Inc. and Timken Co.

"The markets that are less efficient can be interesting," said White, who was previously a managing director at Knight Vinke Asset Management LLC and a money manager at the [California](#) Public Employees' Retirement System, the largest U.S. pension plan. "The market may miss key aspects of value and may miss it for longer periods of time. It gives activists time to build and do something about it."

## Activist Pedigrees

Legion's other founders also have activist pedigrees. Kiper was at Shamrock Capital Advisors Inc. as a manager of the Shamrock Activist Value Fund, for which Vizi was a member of the investment staff.

Legion has \$220 million in committed assets. CalSTRS will provide them with capital in \$50 million increments after assets reach certain milestones, Larrieu said.

The pension system will consider additional seed investments for the ability to take minority stakes in funds and early allocations for concessions on fees, according to Larrieu. CalSTRS' other activists include Blue Harbor

Group LP, New Mountain Capital LLC, Starboard Value LP, Cartica Capital LLC and [Knight Vinke](#). CalSTRS commits a minimum of about \$100 million to each fund and prefers to be the sole investor in a pool, also known as a fund-of-one structure, Larrieu said.

## Strategy Demand

Investor demand for event-driven funds has helped push industry assets to a record \$2.6 trillion at the end of last year, driven by the best annual performance since 2010, according to a Jan. 21 report by Chicago-based Hedge Fund Research Inc. Event-driven funds, run by managers including billionaire John Paulson, can bet on takeovers, restructurings and bankruptcies, and have benefited as corporate boards have grown more active and hedge funds have pushed companies to return value to shareholders.

The strategy attracted the most capital of any type for the first time since 2007, HFR data show. Event-driven funds posted a 13 percent gain in 2013, compared with the 9.1 percent average annual return across all strategies, according to HFR.

“There are a number of institutions with growing interest in this space,” said Legion’s White.

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