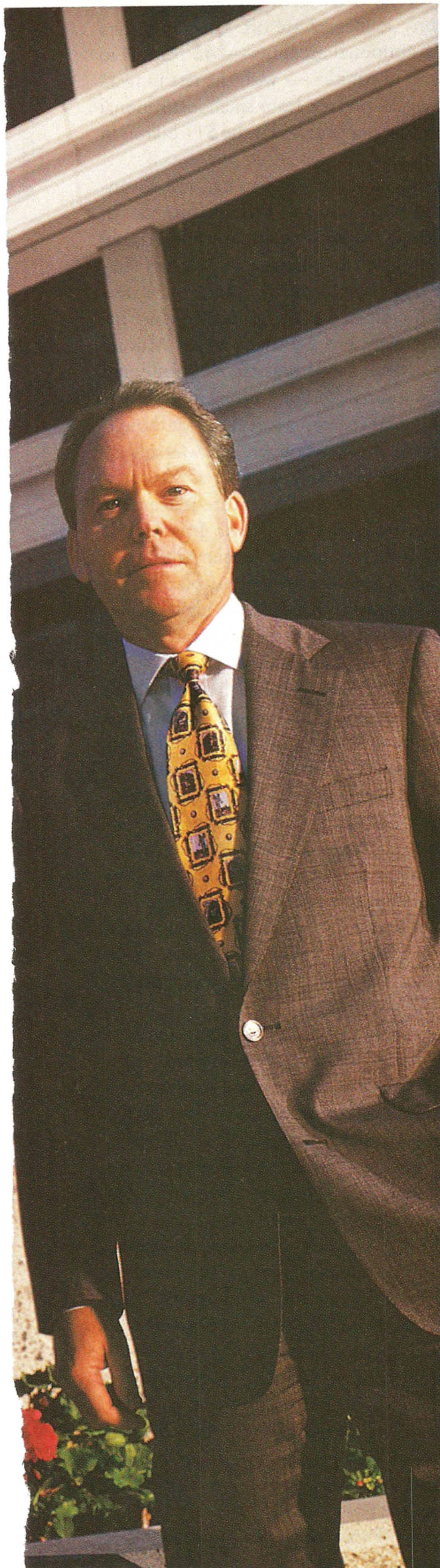
Pimco's Gross (left) and Thompson (far right), with retired Pacific Mutual CEO Gerken: For more than a decade, Pacific Mutual wrestled over complex issues of ownership and compensation with its bond unit, Pimco


Photographs by Voldi Tanner

In an era when big money managers are expected to be all things to all clients, bond giant Pimco has found just how difficult it is to build an equities business.

# Pimco's equity play

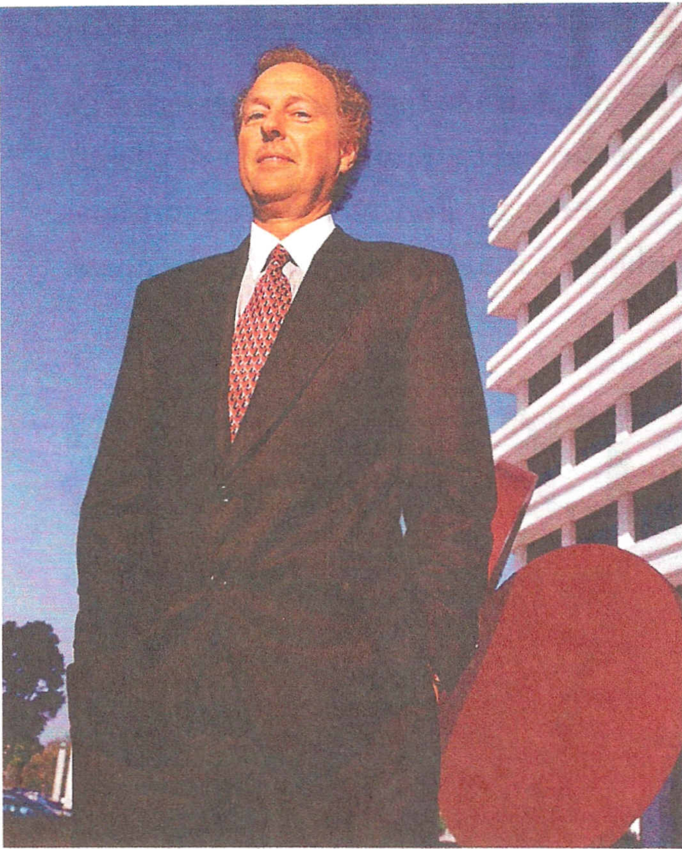
TWELVE YEARS AGO NEWPORT BEACH–BASED PACIFIC Mutual Life Insurance Co. had a growing success on its hands: a fixed-income shop, called Pacific Investment Management Co., led by a former-gambler-turned-bond-manager named William Gross. Founded in 1971, Pimco had piled up $13 billion in assets and, by 1986, was growing by an impressive 15 percent annually. But Pacific Mutual wasn't satisfied. It wanted some balance in its asset mix. It wanted equities.

Over the next eight years, Pacific Mutual recruited equity managers for four start-ups and acquired an equity house. Equities grew, but profits remained skimpy. And by 1994 the imbalance was as bad as ever. As the equity side of the business accumulated $15 billion in assets — hardly chump change — Gross's bond operation zoomed to $57 billion in assets.

Pimco had to find a way to gain real scale. In 1997 Pimco Advisors, as Pimco's new parent is now called, finally bet big, spending $1.1 billion for Oppenheimer Capital and its $60 billion in assets. And today Pimco has the scale in equities it long sought. Its units manage $225 billion in mostly institutional assets, and the firm remains on the prowl for strategic partners.

A happy ending? Sort of. Pimco's quest for an equity alternative to fixed income resonates throughout money management. These days asset managers generally embrace the conventional wisdom that size (and, by extension, consolidation) is not only inevitable but good. But in the race to bulk up, many firms have failed to fully comprehend just how difficult it is to build a big, successful equity house, even amid a roaring bull market (*Institutional Investor*, October 1997). Pimco thus provides a cautionary tale. Despite spectacular growth in bonds, it

**By Alyssa A. Lappen**



**Pimco Advisors' Cvengros: He started Pfamco as a corporate greenhouse to grow the equity side of the business**

found equity success elusive. The firm wrestled with issues confronting many growth-oriented money managers: whether to build in-house or to buy, how to structure ownership, how to compensate and incentivize managers and employees.

"It's harder to build equities," confesses now-retired Walter Gerken, who was CEO at Pacific Mutual when the equity effort began. "There was more competition in equities, we were starting from scratch, and not many [firms] had been able to manage both." In repeated attempts to attract and retain talent, Pimco became mired in compensation and ownership issues.

And by the time Pimco managed to acquire its way to world-class equity scale, by picking up Oppenheimer, it discovered that there is no promised land. Instead, new challenges emerge: integrating disparate managers, coping with difficult markets and — perhaps toughest of all — coaxing superior performance from greater scale.

That performance issue looms larger in equities than in bonds. "In equities scale isn't always friendly," notes Barra RogersCasey chairman John Casey. Nonetheless, Pimco CEO William Cvengros remains characteristically upbeat, insisting that no matter the market, the goal remains growing assets by 12 to 15 percent a year over the long term. Says Cvengros confidently, "Size in most cases will work to our advantage."

TODAY PIMCO ADVISORS BOASTS $225 BILLION in assets — $148 billion in fixed income, $77 billion in equity. Pimco finished last year as *Institutional Investor*'s No. 17 money manager in the U.S., No. 8 in tax-exempt U.S. fund management and No. 4 in U.S. bonds — rankings that are certain to rise, given Pimco's 13 percent overall growth in assets through September in a year when most equity managers are off. Currently, two thirds of its assets are in institutional accounts — 42 percent in fixed income and 23 percent in equities — with the rest in retail and mutual funds (including 14 percent from small institutional clients). Its recent push overseas has garnered some $11 billion in assets in Asia, Japan and Europe.

Pimco's success didn't just happen; the firm had the advantage of being constructed with unusual thoughtfulness. In 1967 virtually no U.S. mutual insurance company had created an in-house third-party investment business, much less succeeded. Yet that year Gerken spotted the potential for a new profit center shortly after he joined Pacific Mutual as chief investment officer from Northwestern Mutual. Pacific Mutual then had $810 million in general account assets, $80 million a year in investable cash flow and an excellent record investing in stocks, bonds and mortgages for its own accounts — although a mutual fund seeded with $2 million flopped and was sold to Los Angeles's Capital Guardian Trust Co.

In 1971 Gross joined Pacific Mutual's private-placement operation, the same year Gerken set up Pacific Investment Management Co. as a separate subsidiary. A man who once counted cards in Las Vegas, Gross found private placements dull and began to shift into bonds. By 1973 Gross had built up a decent track record on a $10 million internal account, and he and his team moved full time into fixed income.

Unlike most start-up money management shops in those days, Pimco actually had a business plan. Gerken assigned planning and strategy to William Podlich, marketing and client service to James Muzzy and money management to Gross and his team. They in turn consulted management guru Peter Drucker, whose seemingly mundane advice was a revelation at that time in investing, particularly for a unit owned by an insurer: Keep the organization flat and focused. "Drucker told us to manage the portfolios, manage the client relationships and manage the business," Muzzy recalls. "You don't have to shop a decision through layers of decision makers. We took those three anchors and determined that without each piece working well, the organization would not prosper."

"Pimco is brilliantly structured," notes Donald Kurtz, a Pimco board member, formerly chairman of investment companies at Equitable Life Assurance Society and a managing director of GM Investment Management Co. "One of the biggest strengths at Pimco is client relationships." Loomis, Sayles & Co. managing partner Daniel Fuss, who runs his firm's $29 billion bond operation, agrees. "I always tell our marketers, 'Don't fall asleep if Pimco is within 100 miles,'" he says. Pimco's early decision to separate planning, marketing and client service and portfolio management, Fuss notes, enabled them to bulk up "without having the firm fracture."

But as Pimco grew, frictions arose. "Relations between Pacific Mutual and Pimco were not warm and fuzzy," says one investment banker. Until 1982 Pimco's investment team appeared weekly at Pacific Mutual's investment committee meeting. Finally, Gross, Podlich and Muzzy demanded autonomy and a share of Pimco's growing profits. "No CEO should have to go through this kind of negotiation more than once," sighs Gerken, now 76. "They were tough. But that's the way it should be."

Gerken wasn't eager to give Pimco managers autonomy or a piece of the profits. "But you didn't have to be a rocket scientist to

understand we didn't have the troops to put into Pimco if they waltzed," he says. "The alternative was owning zero."

So in 1982 Pimco's key managers signed a contract offering them a quarter of its profits. The second round of negotiations, about three years later, informally labeled Pimco II, gave managers even greater profits. Pimco III, sealed with a third contract in 1989, created a profit-sharing pool offering departing partners a percentage of Pimco's profits for 20 years.

Despite the stress, the conflict produced a powerful incentive engine that drove Pimco's growth. "In 1988 we thought assets would take years to grow to $25 billion," says a former manager. "But we blew through that level within 15 months."

BY EARLY 1986 TENSIONS BETWEEN Pacific Mutual and Pimco had subsided, thanks to growth and the new compensation schemes. Cvengros, then Pacific Mutual CIO and a 14-year veteran who had made his reputation within the company by arranging the financing for Warren Buffett's 1978 acquisition of Diversified Retailing, formed Pacific Financial Asset Management Corp. in 1987 as a corporate greenhouse to grow equities. Cvengros hired investment manager Steven Bailey from Brown Brothers Harriman & Co. to recruit investors in what Pimco called "pup" firms.

Cvengros and Bailey planned to impose Pimco's three-pronged structure on the fledgling operations, hoping to spur the creation of growth products. "We had a saying," Bailey recalls, "that you should have one product that makes you profitable and one product that makes you rich."

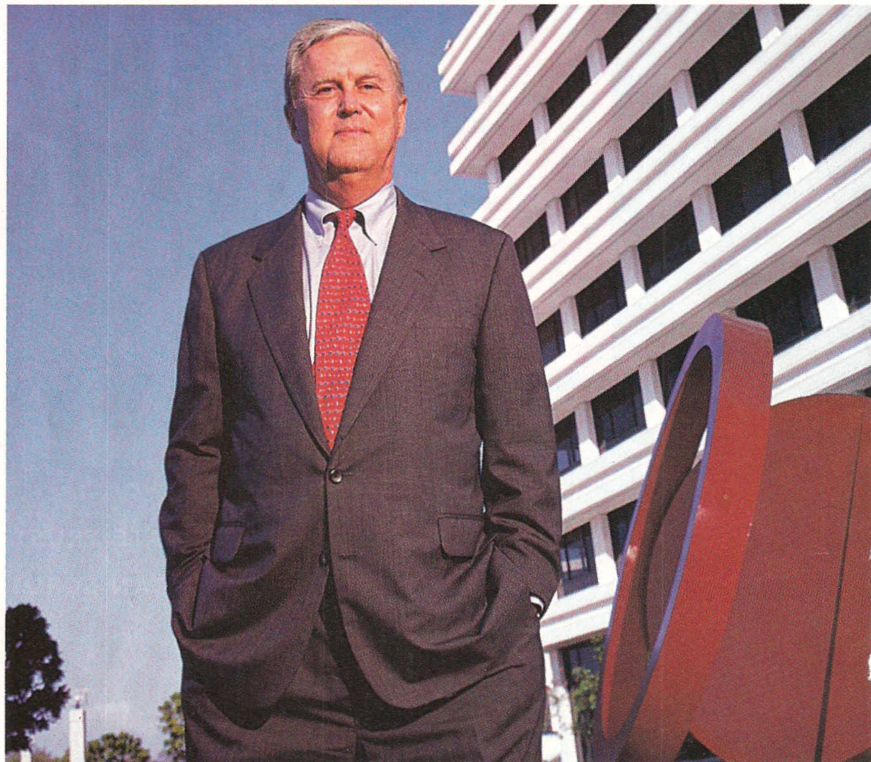
But again the insurer struggled to get compensation and ownership right, costing it at least two marquee names. In 1987 rising equity management star Gary Brinson at First Chicago Investment Advisors seriously considered coming aboard but retreated after the October crash. Brinson spun his operation out of First Chicago in 1989 and now runs some $390 billion in global institutional assets for UBS Brinson. In 1988 Salomon Brothers equity strategist Robert Arnott shook on a Pacific Mutual deal at the Admiral's Club at John F. Kennedy International Airport, only to shortly thereafter accept a counteroffer from Xerox Financial Corp.'s First Quadrant unit that included revenue-sharing and performance fees.

In fact, the pups never grew nearly as fast as Gross's bond business. Take Seattle-based Parametric Portfolio Associates, which was founded with refugees from Frank Russell Co. in 1987 to launch enhanced Standard & Poor's 500 and Europe, Australia and Far East index products. Assets reached $781 million by the end of 1989. But in recessionary 1990 Parametric's EAFE accounts lost some 24 percent of its assets, and its Pacific Rim accounts shed about 35 percent.

In 1988 Pacific Mutual seeded Boston-based small-cap growth manager Cadence Capital Management and a year later founded Dallas-based large-cap value manager NFJ Investment Group. But by 1991 the three pups' combined profits were still only $1.1 million — of which captive managers took 15 percent — on revenues of $7.6 million. This was minuscule compared with Pimco's 1991 profits of nearly $15 million on revenues of $84 million. Worse, equity greenhouse Pfamco more than consumed those pups' earnings.

By 1993 the situation had barely improved. The establishment of Edinburgh-based Blairlogie Capital Management raised Pfamco assets to $4.2 billion, compared with Pimco's $53 billion. But the first three pups generated profits of only $3.5 million on revenues of less than $18 million, while Pimco netted $21.3 million on $145 million in revenues. And $2.1 million in losses at Blairlogie, together with Pfamco marketing and legal costs, boosted overall Pfamco losses to $3 million.

Even Gross now complained. "A small company growing to $5 billion has not achieved critical mass," he says. "It didn't fit with Pimco." By 1993 the bond house was anxious to market its mutual funds and needed equity offerings as a counterbalance. Gross's demands took on new force when former Salomon bond trader William Thompson Jr. joined Podlich as Pimco's co-CEO in 1992. "It was like he brought the Hells Angels to the convent," says one investment banker of Thompson's hard-nosed style. Gross, backed by Thompson, now demanded real ownership of the bond unit.



**Pimco Advisors' Ken Poovey: As a joke, colleagues presented him with a button that had "Good Ken" on the white side, "Bad Ken" on the black**

Meanwhile, Pacific Mutual had its own problems. The bond shop's success did little for the insurer's balance sheet, which carried Pimco at cost. Ratings agencies wanted reassurance that Pacific Mutual's investments had real value. "They were still in a panic about Executive Life," says Glenn Schafer, current president of Pacific Life Insurance Co., (the insurer changed its name after going public this year), referring to the Los Angeles insurer sunk in 1991 by its junk bond portfolios. "We told them Pimco was worth a lot, but they just said, 'Yes, yes.'" The obvious solution: Take Pimco

## How Gross games the indexes

CONVENTIONAL WISDOM SUGGESTS that in bonds (unlike equities) size doesn't impair performance. For evidence consider Pimco Advisors' bond unit (story). Although Pimco has since 1995 nearly doubled bond assets, to $148 billion, the $91.2 billion invested in its largest total-return composite earned 10 percent gross of fees annually in that time — 1.94 percent ahead of the Lehman Brothers aggregate bond index. This is stupendous, considering that bond managers normally squeeze out an edge in basis, not percentage, points.

To get those returns, Pimco invests in diverse securities and sectors, from Treasury futures to high-yield bonds to emerging-markets bonds, most of them not represented in the Lehman index and containing far more risk. "In stocks, beating an index is quite hard," says William Dawson, who heads $92 billion in fixed-income portfolios at Pittsburgh's Federated Investors. "In bonds it's quite easy over longer periods. You can game the index. Pimco has done that."

Pimco CIO William Gross doesn't entirely disagree. "We buy outside the index and use the returns to beat the index," he says. But Gross, whose biggest total return mandates returned 1.62 and 3 percent in August and September, respectively, hedges his bets. "Pimco's objective over the years is to utilize attractive areas," he says, "but not enough, in case of a blowup, to produce a bad day or a bad year. Gaming has to be done in moderation, so that if you have a catastrophe, you can still outperform."

Critics argue that size alone has forced Pimco to branch into risky new sectors. "Gross has been incredibly savvy about metamorphosing his portfolios and style," notes a former employee. "In the early '80s Pimco made interest rate bets, pure and simple. When the portfolios got to about $10 billion, Gross began taking sector bets. In the late '80s he added futures arbitrage, and then he moved into high yield and international. Pimco couldn't manage $148 billion and substantially add value just in corporate bonds."

In equities consultants and clients would not tolerate such style shifts. But in bonds — at least with Pimco — they do. Texas Utilities Co. has allowed several style changes since opening its $230 million Pimco account in 1987; Pimco managers can

public to gain currency for acquisitions and compensation.

In early 1993 Putnam, Lovell & Thornton investment banker Donald Putnam proposed to Pacific Mutual a reverse merger with Stamford, Connecticut–based Thomson Advisory Group, a publicly traded master limited partnership. The effective price was a rich $380 million, to be paid in part with 1.7 million units in the merged company, but the insurer would get a stake in a public partnership (boosting the book value of Pimco and Pfamco) and public stock. "It was a financial deal," says one source involved in the transaction. "And Gross and Thompson were running the show."

Like Pimco, Thomson Advisory had struggled with ownership issues. Thomson was formed in January 1985, when Gulf & Western sold its investment arm, Columbus Circle Investors, to New York brokerage Thomson McKinnon. In 1990 the brokerage firm failed. Cvengros discussed hiring its key portfolio managers, Irwin Smith and Donald Chiboucas, but they wanted an ownership stake. Instead, with a $7.5 million venture capital stake from TA Associates and Graylock Partners, they formed Thomson Advisory. Ironically, four years later the pair would help Pimco gain its ownership stake.

The Pacific Mutual–Pimco-Thomson deal was rife with clashing interests. Heavyweight mergers and acquisitions lawyer Kenneth Poovey of San Francisco's Latham & Watkins negotiated for Pimco and Gross. As a joke, Pimco colleagues presented Poovey with a lapel button labeled "Good Ken" on the white half and "Bad Ken" on the black half. The deal took 18 months to close. "It reached a point where people were backing away, and it all had to do with governance and egos," says one participant. "With corporate structures CEOs run things. Here you had six partnerships going under a common roof. Who would end up on top? The Pimco managing directors got the power, control of day-to-day operations and a big chunk of the profits of the new parent entity, which owned all the money management operations. It's all about Pimco, monetary control and egos."

In November 1994 a holding company, Pimco Advisors, finally emerged. Valued at $1.5 billion and run by Cvengros, the company owned Pimco, Columbus Circle Investors and Pfamco's four pups. In turn, Pacific Mutual owned 42 percent of Pimco Advisors, while Gross and his partners held 29 percent. Effectively, the new structure gave money managers more control than at almost any other major asset management firm.

But the deal did not ease the difficulties. The merger enhanced Cvengros's ability to build equity portfolios internally but made his job politically more complex. Pimco's five equity shops ended 1996 with $22 billion under management, up nearly 49 percent in two years. But Pimco's bond shop grew an astounding 55 percent, to $88 billion, over the same period.

CCI, however, now central to the equity effort, was ailing. Smith served as both its business and lead large-cap manager, but his ownership — and incentives — were diluted by the sale. Smith, who refused to comment, cut back his hours and began telecommuting from his second home in Arizona. "Once a manager has sold his firm, he's crossed a mental Rubicon," says one investment banker.

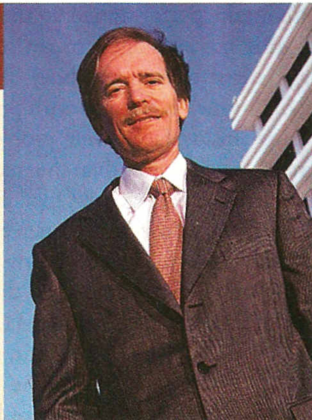
CCI's performance tanked, and clients left in droves. Between 1995 and 1997 its key large-cap growth composite badly underperformed its benchmarks. By last December assets had shrunk 39 percent from their peak, to $9.1 billion. Says CCI president Chiboucas, "We expected to be a cash cow, and as it turned out, we are a sickly cash cow."

Margins remained 60 percent after expenses, before CCI managers took their 45 percent profit share, but on declining revenues. (Recruiting former Connecticut state treasurer Christopher Burnham as CEO in mid-1997 cost CCI its $374 million Connecticut equity account and Pimco $450 million in Connecticut state pension fund bond accounts.) Under pressure from Pimco and Poovey, Smith last year handed off CCI's growth portfolios and made plans to pull back to "consultant" by December.

Pimco Advisors also lacked a central marketing structure. In May 1996 Cvengros hired former Smith Barney mutual fund chief Stephen Treadway to run a mutual fund marketing arm

now invest in derivatives like Treasury futures and mortgage tranches and go up to 20 percent into high yield and 20 percent into international. "Pimco said, 'We have expertise in these areas; here are the risk controls, let us add them to your portfolios,'" says Texas Utilities trust investments manager John Thompson.

BellSouth Corp. also gives Pimco leeway, says pension chief Kincaid Patterson. The head of a big New England pension insists Pimco hasn't changed its style but simply seeks cutting-edge ideas.



**Pimco's Gross: "We buy outside the index and use the returns to beat the index"**

Even rivals admire the attribute. "Pimco is the class act of the business," says Loomis, Sayles & Co. managing partner Daniel Fuss, who applauds Gross's anticipation of ballooning assets and the client service that let Pimco buy nonindex securities.

In truth, clients who failed to expand Pimco's mandates have not done nearly as well. Pimco's limited-discretion accounts returned 9.73 and 8.04 percent annually for the three and five years ended September 30, respectively, against the 8.67 and 7.21 percent annual returns of the Lehman index.

Not that Pimco hasn't encountered some deficiencies of scale. The firm has periodically lost seasoned managers. Late last year Frank Rabinovitch, a 14-year veteran, who created Pimco's issue-selection analysis, and ten-year veteran Stocks Plus manager Dave Edington decamped. The departures cut Pimco's staff of five experienced bond generalists to three at a time of burgeoning growth; the firm filled the spots with a veteran outsider and a young insider.

No one can say that Pimco hasn't done well. But sheer size and style shifts could eventually hurt, since, as the boilerplate goes, past performance doesn't guarantee future success. **— A.A.L.**

from Stamford. Treadway set about repairing the hodgepodge of Pimco, Pfamco and Thomson retail and institutional funds, with the idea of adding assets. Treadway argued for merging the company's three fund families into one Pimco brand, with separate institutional and retail share classes; within ten months shareholders approved. He more than doubled the number of Pimco fund wholesalers, to 25, and shoved products into every conceivable distribution channel, from brokers, banks and trust companies to fee-only advisers, 401(k) plans and wrap-fee programs.

Despite Pimco Advisors' tiny $1 million-a-year advertising budget, Treadway's unit sold $1.9 billion in new retail fund assets in 1997 and an additional $3 billion in retail funds through August 1998. "Pimco is happy, I'm happy, and I'm neurotic about how I can make those numbers jump again next year," says Treadway.

STILL, FIXES AT CCI AND THE MUTUAL funds failed to heal Pimco's equity business. Cvengros now decided to buy the growth he could not build. Unfortunately, some attractive targets simply went to higher bidders.

But in late 1996 Goldman, Sachs & Co. investment banker Milton Berlinski approached Cvengros with Oppenheimer Capital, which then had $48 billion under management, mostly in equities. Oppenheimer had also evolved into a public master limited partnership, enabling Pimco Advisors to buy it with notes and a tax-free unit exchange worth $1.1 billion.

"We were looking for something with size and scope, and Oppenheimer fit the bill," says Cvengros, who announced the deal on Valentine's Day 1997. "It had a similar heritage. It had focused on an institutional client base but had penetrated the retail mutual fund market."

Oppenheimer could finally balance the heft of Pimco's key bond unit — and its managers liked Pimco so much that they passed up at least one higher bidder. Gross and Thompson approved of the acquisition as well.

But echoing Pimco's past experience, the seemingly straightforward transaction became incredibly tangled. The deal had to be restructured twice: to accommodate the simultaneous sale of Oppenheimer Capital's sister securities firm to Canadian Imperial Bank of Commerce and because of revisions in limited-partnership laws. Poovey, who this January became Pimco Advisors' chief operating officer, again ran the negotiations.

Last November ownership and control of Pimco Advisors, now called Pimco Advisors Holdings, shifted again. The public owns roughly 43 percent, more than double its earlier stake. Pacific Life holds some 31 percent; Pimco's managing directors control roughly 20 percent. Columbus Circle lost one of its two board seats to Oppenheimer representatives.

In the 11 months after the deal closed, the market failed to maintain much new value in Pimco. The holding company's units rose to nearly 36, but by late October, with markets in turmoil, the 108 million units were at 30 each, putting its market capitalization at about $3.2 billion — not much more than its price last November. Pimco Advisors' market cap remains less than half that of Franklin Resources, whose value is $7.6 billion. "Pimco sells at a discount to other asset managers," says Barra's Casey. One reason, he adds, is that it has not yet established itself as a fully integrated, strategic business.

That perturbs Gross, who still owns roughly 10 percent of Pimco Advisors. Cvengros, who holds about 0.5 percent, also wonders why Pimco Advisors' $225 billion in assets commands much lower market value than Franklin's $209 billion. He has recently taken to the road to change investors' perceptions.

Certainly, Pimco Advisors now has the kind of liquid public units that managers at Pacific Investment Management and the Pfamco pups coveted in their early years. Key money managers also take 45 percent of their subsidiaries' profits after expenses. In 1996 a committee headed by Poovey and Podlich added another long-term incentive for highly paid executives: Pimco Advisors now defers 30 percent of managers' salaries (up to 40 percent at the bond unit) in the form of discounted Pimco units. Aware that inside manager ownership should be broader

and deeper, Pimco Advisors is also distributing new equity options. But the market remains skeptical.

Beyond that, new problems, similar to those afflicting other large active money managers, have arisen. One is to find ways to integrate Pimco's diverse units to garner economies of scale, particularly in marketing. Here Gross may be both a blessing and a curse. Gross's name could help attract new mutual fund assets, spreading a brand cachet to equities. But many already view Pimco as too dependent on a one-product superstar.

A thornier problem is how to align the interests of Pimco Advisors' owners with those of its client base. Can Pimco grow and maintain performance at the same time? So far Pimco's bond unit has managed to do so, albeit not without some strategic maneuvering (see box). But in equities, actively managing big money is fraught with peril.

Pimco already faces some problems at Oppenheimer, which has grown much slower than the market in recent years. In the 21 months through September, Oppenheimer's institutional separate-account assets grew some 18 percent, before shrinking back to $32.5 billion (clients pulled nearly $5 billion in assets this year alone) — not much more than they held at the end of 1996. Meanwhile, the S&P 500 gained 41.4 percent.

To be fair, the firm's business is largely based in the no-growth defined benefit arena, where big public funds have been moving to indexing regardless of performance. It also faced an uncertain ownership situation at a time when value managers like Oppenheimer were out of favor. "Oppenheimer Capital was up for sale for two years," says Joseph Rusbarsky, Oppenheimer's institutional marketing chief. "It was not exactly a marketing person's paradise." Some clients moved to managers offering broader strategic partnerships. Others objected to a sense of drift. "We lagged. We did not blaze trails," Rusbarsky admits.

Oppenheimer CEO and CIO George Long countered some of that by moving into new distribution channels, continuing a push into retail launched by former chairman Joseph LaMotta, who retired at the time of the sale. The wrap-fee business mushroomed from $2.7 billion at the end of 1995 to $8.7 billion today. The firm also now subadvises some $4.5 billion in variable-annuity accounts and a further $12.4 billion for outside mutual fund families and bank trusts.

Still, Oppenheimer's total assets grew only 20 percent in the 21 months through September, roughly 21 percentage points less than the market.

Ironically, Oppenheimer can get no help from Pimco in its biggest retail channel — mutual funds. In 1995 OppenheimerFunds (previously a sister company) bought Oppenheimer Capital's Quest for Value funds. Oppenheimer Capital still subadvises those funds, which OppenheimerFunds has built by some 306 percent, to $6.9 billion. But until 2005 Oppenheimer Capital cannot distribute mutual funds, even through Pimco, limiting Treadway's defined contribution effort.

Oppenheimer has also mounted a big push into Japan, Australia and Europe. The unit has bagged $869 million in global equity mandates, enabling growth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with little threat to domestic performance. (Pimco's new Japanese version of its Total Return Fund this summer raised $372 million in ten weeks.)

But Oppenheimer's marketing push could collapse, unless it resolves discrepancies in the performance of key U.S. large-cap value accounts. Last year Oppenheimer's best large-cap value accounts earned some 43 percent, about 10 percentage points ahead of the S&P 500. That wasn't easy to explain to consultants with clients that earned only 23 or 26 percent in less-stellar Oppenheimer accounts, says CEO Long.

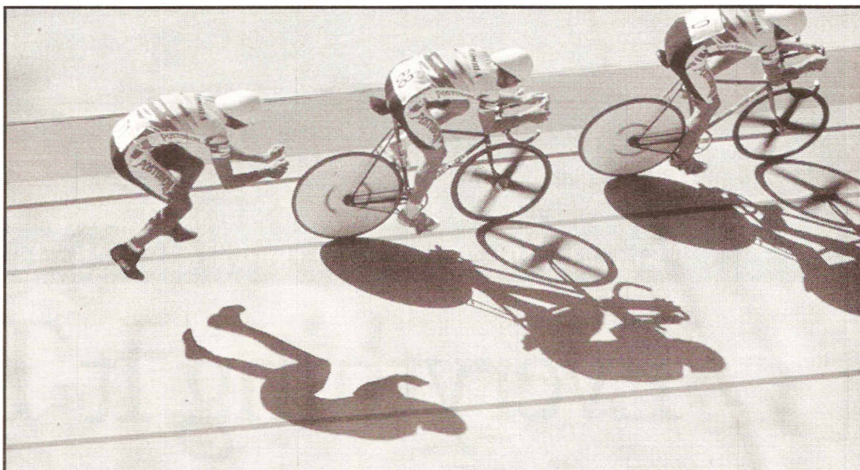
Undoubtedly, dispersion — the broad performance discrepancy between client accounts — is a serious problem at Oppenheimer, where 55 percent of business comes from large separate accounts. President James McCaughan, the former New York–based UBS Asset Management president who joined Oppenheimer in April, admits size is a factor. "Dispersion has to do with size, yes," he says. "We are quite a large domestic manager, and our portfolios are more concentrated than most" — with 45 to 50 names. "If we have 10 percent of a stock, we are reluctant to buy more." But more stock may be needed to spread enough into all accounts evenly.

In response, Oppenheimer is shifting to teams, away from the cult of the individual that has long dominated most active money management firms. "Aside from Capital Guardian not too many firms had a team approach," says Long. "But how do you foster creativity and get a uniform product? That's the toughest challenge." McCaughan advocates exiting the star system. "Clients want the firm's best efforts and a team approach," he says. But not all clients want to shift, making change painful — and slow.

Oppenheimer's team effort, which was launched in 1993, began by adding several managers to a few portfolios. Research chief Frank LeCates and portfolio manager Colin Glinsman created a scoring system to prevent team members from veering too far from a portfolio created by Oppenheimer's eight best managers. But it took Rusbarsky, 37, a West Point graduate and former Greenwich Associates researcher, to persuade the firm to put all new clients except already-constrained Taft-Hartley accounts into the team product. Still, little more than 10 percent of the firm's institutional assets, $3.7 billion, has migrated to teams, up from $2 billion in late 1997.

But even migration won't entirely solve the dispersion problem. "We don't believe in diversifying away our insight," says Long. "We are never going to have a single large-cap product with zero dispersion."

The bigger Pimco grows, the more challenging it will be to sustain its superior performance record. Cvengros insists that size was always an issue, even in the mid-1980s, when Pimco was much smaller and less diversified. But mighty Pimco cannot escape the subversive question that plagues the industry: How can an asset manager assure clients that the growth of its business is also in their interest? Answering that question may make Pimco's quest to build an equity operation appear easy. ii



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