

The puzzle called Mellon

Mellon's nine asset management boutiques are autonomous, focused and, for the most part, solid performers. Why aren't they growing?

By Alyssa A. Lappen



Head of investment operations Condon:
Over the past two years, moving on several fronts to shore up Boston Co., revitalize the Dreyfus franchise, revamp compensation and boost sales

Steve Skoll

Mention Mellon Bank Corp., and many pension consultants and institutional clients respond with a blank stare — or a look of confusion. Geographically, the Pittsburgh bank's money management business sprawls, with outposts in Boston, London, Pittsburgh and San Francisco. Stylistically, the operation — with its nine units and \$268 billion in assets — is diverse to a fault, offering everything from indexing (Mellon Capital Management Corp. and Mellon Bond Associates) to actively managed mutual funds (Dreyfus Corp.) to custom portfolios, completion funds and quantitative techniques (Franklin Portfolio Associates and Pareto Partners).

One customer of Mellon Capital and Franklin Portfolio was not aware that Mellon owned them both. "It's ironic that we don't have a strategic relationship with Mellon," says another, who invests with

Mellon units Certus Asset Advisors and Mellon Capital and recently hired Mellon Trust to handle some of its custody. "We hired each group on its own merits and have thus far seen no coordination of services. But I'd like more strategic relationships."

In many ways Mellon Bank, like the money management industry generally, stands at a crossroads. Over the past 15 years, the bank has built investment silos the traditional way by drafting dedicated investment professionals to run their organizations autonomously. In return, most provided superior performance. But today many observers question the wisdom of powering a money management firm off separate units, with no central infrastructure. Clients still want great performance, of course, but increasingly, they are demanding a bevy of other services as well, such as centralized relationship management, asset allocation across disciplines, fee

stacking and unified recordkeeping and trading.

Nonetheless, says Mellon Bank chairman Frank Cahouet, "we're happy. Nothing's ever perfect, but this is a company characterized by a certain patience." And why not? Shareholders have earned a 28 percent compounded annual return since 1989, one of the higher returns among U.S. commercial banks. "It has been an extraordinary investment," raves Lionel Pincus, whose E.M. Warburg, Pincus & Co. now owns 8.5 percent of Mellon's stock, which was trading in mid-August at 46^{7/16}.

The money management businesses contributed some \$1 billion in gross fees to Mellon's overall \$3.5 billion in revenues last year — boosting the total from fee-based businesses to 59 percent of revenues, roughly 40 percent higher than the average for other big banks. Mellon's money management operations also netted an estimated \$210 million, or 26 percent of Mellon's total profits, even though more than one third of its assets are in low-margined cash products. Mellon Trust's sheer size also brings huge potential. "We are in a unique position to dominate distribution of investment products nationally," claims Christopher (Kip) Condron, CEO of Dreyfus, head of Mellon's investment operations and Mellon Bank vice chairman. "That's what gets us up in the morning."

Alas, Mellon is also losing market share. Mellon Bank slipped to sixth place on *Institutional Investor's* list of the 300 largest money management firms for 1996 (*Institutional Investor*, July 1997), falling from third for 1995 and second for 1994. Although Cahouet dismisses the loss of market share, the point is not lost on Condron. "Growth had not been coming as fast as it ought to," he admits. Assets at Mellon's six wholly owned institutional boutiques grew 68 percent from 1992 through June, roughly double the growth of the Lehman Brothers Aggregate Bond index but half the rate of the Standard & Poor's 500 index over the same period. At Dreyfus assets grew a mere 11.7 percent from 1993 through the second quarter.

Why the mediocre growth with generally superior performance? For openers, Mellon has been slow to target the booming defined contribution business, and its menagerie of autonomous units makes selling the Mellon name difficult. The emphasis on performance has also subtly warred on growth strategies. "In investments you either grow or you die," says Franklin Portfolio head John Nagorniak. "But you have to be true to the profession. You don't want to get so overrun with money that you can't run." Mellon Capital chairman and chief executive Thomas Loeb is even more blunt: "We don't want to grow too quickly," he says, an unusual point of view in an indexing business driven by economies of scale.

Looming over all these issues is the reality of a red-hot

takeover environment for bank and asset management firms. For months now Mellon has been the subject of rumors. Cahouet, 65, is near retirement, with no designated successor. And although large (with a market capitalization of roughly \$12 billion) and pricey (it might require at least \$16 billion to buy), Mellon could be broken up, with the retail bank or selected asset management units sold off to pay down debt. It makes for a tempting target.

When Frank Cahouet arrived at Mellon Bank in 1987, he encountered stunning losses from bad real estate and oil loans and a moribund branch network. Cahouet, a veteran of Security Pacific Corp. and Crocker National Corp., began hacking at costs and launched a "good bank, bad bank" strategy to off-load bad loans from the bank's balance sheet (*Institutional Investor*, August 1994).

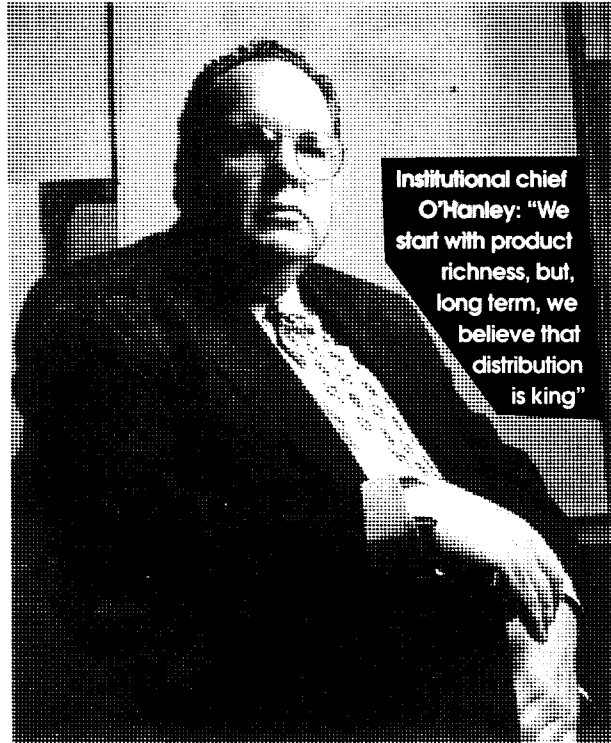
On the plus side Mellon had a respectable custody and administration business and a group of fledgling money management boutiques with some \$47 billion in assets. Together the bank's investment-related businesses generated about \$257 million in annual fee revenues.

In 1982 Mellon had drafted Myron Scholes protégé and Massachusetts Institute of Technology graduate Nagorniak to run the first Mellon boutique, Boston's Franklin Portfolio Associates. A veteran of John Hancock Financial Services and State Street Bank & Trust Co.'s trust department, Nagorniak had a quant style with a distinctive value bias. Franklin Portfolio now handles \$12.1 billion

for 26 clients. A year later Mellon Capital opened in San Francisco, led by indexing and tactical allocation gurus William Fouse and Thomas Loeb, both veterans of the famed Wells Fargo Investment Advisors. Mellon Equity Associates, also a quant shop with a value bias, grew out of Mellon Bank's old trust department and was spun out as a separate unit in 1987.

Mellon Bond, specializing in indexing to selected benchmarks, was started in 1986 by Paul McCann, who had headed the fixed-income team in the trust department at Philadelphia's Girard Bank, which Mellon acquired in 1982. And the long-established Mellon Private Asset Management continued running money for wealthy trust customers but also began in mid-1986 to customize Mellon Equity models to run funds according to its own style.

Cahouet was an early bank convert to money management fees, which looked more stable than old sources of bank income. By 1991 he was looking for more money management assets and picked up a 65 percent stake in London-based Pareto Partners, which aimed to supply U.S. pension funds investing internationally with better and cheaper protection against currency risk than what was then available via options. Pareto went on to



build a \$23 billion overlay business, 60 percent of it outside the U.S. (Mellon sold more than half its position in 1996 to Bermuda-based excess-insurance giant Exel.)

By the early '90s, with the bank perking up, Cahouet laid bigger bets. In 1993 he outbid Pittsburgh's PNC Bank Corp. to acquire Boston Co. from American Express Co. for \$1.45 billion. The deal included a \$290 billion administration-and-custody business, as well as a money management arm.

Then came trouble. First there was culture shock, as Mellon cost-cutters descended. Then the firm was hit by a securities lending debacle in 1994. Cahouet fired the fixed-income managers he deemed responsible, took a \$223 million pretax write-off and issued a ban on derivatives to Mellon's other money management units, according to several sources.

The saga went from bad to worse when Boston Co. chief investment officer Desmond Heathwood blew out of the firm in April 1995 with 14 other star managers (*Institutional Investor*, January 1996). Assets quickly shrank from \$25 billion to \$12.5 billion.

Enter Condrón, who had sold his Pittsburgh personal-finance firm in 1985 and landed the top job at Boston Co.'s private-client group four years later. Cahouet named Condrón to head up the firm; Condrón in turn tapped McKinsey & Co. consultant Ronald O'Hanley, now chief operating officer of Mellon's institutional units.

Condrón convinced Cahouet that the firm would expire without fast action and was authorized to give big contracts to retain top managers. Next, Condrón hired as vice chairman and CIO Alexander (Toby) Webb III from Fidelity Management Trust. Webb, who now heads investment operations from a chair at Boston Co.'s fixed-income desk, helped develop a compensation package with phantom stock to keep 17 key managers whose retention bonuses expired in 1996. And Condrón recruited State Street Bank & Trust Co. custody marketer Francis (Frank) Antin to boost sales.

Meanwhile, Cahouet had been moving on another front. In mid-1994 he acquired Dreyfus for \$1.85 billion, unleashing criticism that he had overpaid. The deal's pooling-of-assets structure, however, effectively eliminated goodwill from the purchase price and Mellon's subsequent balance sheet, allowing the bank to dip into \$750 million in excess cash that had been on Dreyfus's balance sheet without ill effect and to reduce its net cost to what looks in hindsight like a bargain-basement 1.4 percent of assets.

But Cahouet had acquired a fading franchise. Dreyfus had already slipped from third place among U.S. mutual fund families in 1990, to sixth in 1994 (it's ninth today). Worse, the fund company had 54 percent of its assets in money market funds, half in the low-fee, institutional variety. "If the company

had no problems and no challenges, it would not have been available," counters Cahouet. "There's not enough time in life to build a credible mutual fund company from scratch. We decided to go out and look for one."

In June 1995 Mellon picked up San Francisco's Certus, a firm specializing in guaranteed income contracts. And in July of this year the bank closed the purchase of Buck Consultants, the New York-based employee benefit, actuarial and pension consulting firm with \$285 million in revenues.

Today Mellon Trust's money management group possesses some real strengths. The Dreyfus brand name remains one of the most recognizable in financial services. Founded in 1951, Dreyfus became syn-

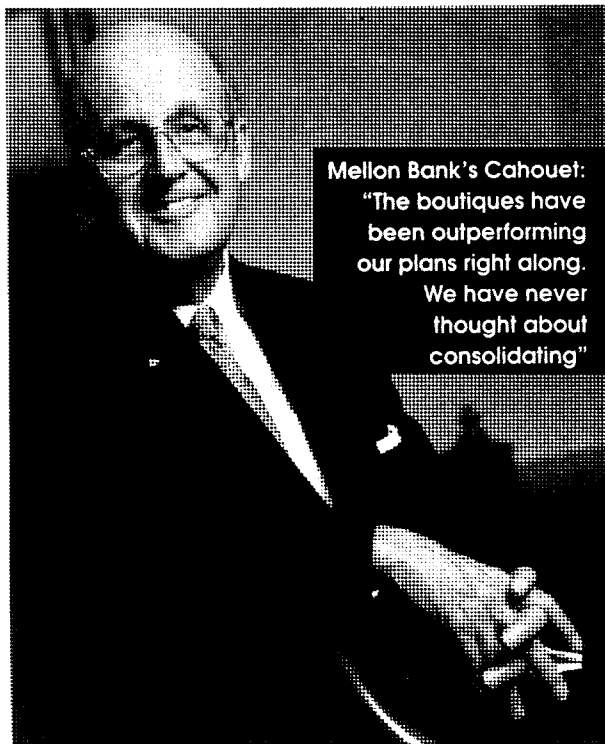
onymous with money market funds in the late '70s when interest rates skyrocketed. But the firm floundered in the '80s, when then-chairman Howard Stein refused to create or push equity funds.

Condrón claims Mellon has begun to succeed in the Dreyfus renewal: Equity assets have more than doubled since mid-1994, to about \$19 billion. In 1996 Dreyfus had net equity sales (growth minus redemptions) of \$1.85 billion, up from \$275 million in 1995; in the first half of 1997, net sales of equity funds were \$1.93 billion. Currently, Dreyfus's equity mutual fund market share is about 0.8 percent; year-to-date, however, the firm has grabbed a 2.6 percent share of new money flowing into equities — genuine if unspectacular progress.

Mellon also sports stellar institutional performance. At Mellon Capital, the world's No. 4 indexer, Fouse's tactical asset allocation model has been especially strong. Since 1977, says Loeb, the model has added 260 basis points a year over the benchmark of 65 percent stocks, 30 percent bonds and 5 percent cash. Vanguard Group's \$3.5 billion Asset Allocation fund, subadvised by Mellon, returned 16.31 percent annually for the five years through June 30 — nearly matching the S&P's 19.78 percent return, with 83 percent of the risk.

Such performance is no rarity at Mellon. At Boston Co. the Massachusetts Bay Transportation Authority Retirement Fund gained 36 percent last year on a \$42 million small-cap value account opened in late 1995 — placing it in the top 7 percent of its peers. Under the firm's aegis the Teachers' Retirement System of Louisiana's \$412 million large-cap value account has grown more than 17 percent a year since early 1987. Since mid-1994 Boston Co.'s international-equities team has returned 14.29 percent a year, beating the Europe, Australia and Far East index by 5.16 percentage points.

At Franklin Portfolio computers sift through 30 measures



Mellon Bank's Cahouet:
"The boutiques have
been outperforming
our plans right along.
We have never
thought about
consolidating"

David Achikens/Saba

on each of 3,500 U.S. securities and a dozen measures on 2,000 international stocks and craft portfolios to the specifications of 25 giant pension plans, including AT&T Corp. and the Minnesota State Board of Investments. Nagorniak's \$496 million S&P 500 Core Equity quantitative offering returned 20.27 percent annually for the five years ended June 30, compared with 19.85 percent for the S&P, although it underperformed by about the same margin for the three-year and one-year periods. Even Certus boasts standout numbers. Overall, the portfolio has racked up annual GIC performance of 9.6

than expanding share. They are a little undermarketed. Nagorniak is actually pretty terrible at telling his story, and he'd be the first to admit it. A lot of my favorite managers are really terrible at marketing."

Condrón and O'Hanley argue that Mellon can both grow and perform. "By definition, half of the industry has below-average performance, so there's opportunity to move share," says O'Hanley. "In the core U.S. defined benefit market, we plan to operate [units] as self-contained, with all abilities in-house — including marketing and client service. But [the unit's] charge, in a negative cash flow environment, is to move share," — to take business away from competitors.

Given the complexity of Mellon's operations, the difficulties of the past and the lateness in the market cycle, this may prove difficult. Yet Condrón remains resolute. "We began in 1996 to help our investment subsidiaries grow their sales and marketing staffs," he says. Mellon's institutional units brought in \$5.9 billion in new assets before market gains last year. In the first half of this year, they got \$5.6 billion in net new business, and Dreyfus won \$3.5 billion in long-term assets. "Complexwide we're on a run rate of about \$25 billion of new assets for the year, which is 10 percent growth in assets

before market effect," he adds. "Very few firms can match that." A \$25 billion gain would have placed Mellon among the biggest dollar gainers in *Institutional Investor's* 1997 Pension Olympics (*Institutional Investor*, May 1997).

Condrón insists that Mellon's disparate parts provide a sales network with more distribution points than any rival. "We have eight asset management manufacturing units [not including partially owned Pareto]," he says. "I don't know any investment managers with as many different styles and capabilities."

O'Hanley, too, talks of growth. He would like to double the \$133 billion institutional business within three years, he says, by exploiting channels such as the defined benefit, defined contribution, endowment, foundation and direct retail markets, as well as Dreyfus's 800 number, broker-dealers and insurance agents, non-U.S. markets and Mellon's private client network. "We start with product richness," O'Hanley concludes, "but, long term, we believe that distribution is king."

But Mellon has a long way to go. At Boston Co., Antin has grown assets 54 percent, to \$19.3 billion, since their 1995 bottom, despite continuing client departures. A marketing staff of nine, however, has to cover five U.S. regions plus Taft-Hartley accounts. "Very often we have more than one final presentation on a given day, and we're running at a 68 percent win ratio," Antin says. The firm hit 70 percent of its annual target for new fees by May, but overall assets remain roughly one quarter below their 1994 peak.

Mellon Capital has won 110 new clients in the past 18 months. But even with seven salespeople in regional offices, help from Mellon Trust and some sales through a French bank, *Crédit Commercial de France*, of which Mellon owns 9 percent,

Hardly go-go

Most Mellon Bank Corp. subsidiaries have grown assets at about the same rate as the markets over the past five years. Below is a sampling of the total annual percentage growth (or decline) in assets for each of the five largest wholly owned Mellon subsidiaries, including market action, client gains and client losses.

	1993	1994	1995	1996	1997*
DREYFUS CORP.	-0.13%	-14.04%	15.73%	4.84%	7.23%
MELLON CAPITAL MGMT CORP.	-3.04	-6.74	35.52	15.76	19.82
MELLON BOND ASSOCIATES	6.14	5.99	15.73	7.86	3.21
BOSTON CO. ASSET MGMT	25.13	20.07	-20.89	-12.93	13.49
MELLON EQUITY ASSOCIATES	15.61	0.13	47.25	28.22	27.42

* Through June 30, 1997. Source: Gains and losses, calculated by Institutional Investor, from asset numbers provided by Mellon Global Asset Management.

percent net of fees for ten years, compared with 7.9 percent annually for five-year Treasuries over the same period.

And Mellon Equity, with \$2.6 billion in assets, has exceeded its benchmarks in all but three of the 14 years it has been in existence. The Pennsylvania Public School Employees' Retirement System's \$870 million enhanced core domestic equity account gained 24.6 percent last year, 170 basis points over the S&P 500. "Do we have other quantitative managers?" asks the pension plan's chief investment officer John Lane. "Yes, but not with these numbers."

Yet performance cultures do not necessarily cultivate asset growth. "Bigger assets don't always mean bigger alpha," says Nagorniak. "It is not better in terms of managing money. It is better for distribution, but it's a lot easier to sell 1,000 shares of General Motors than to sell 1 million shares." Assets at Nagorniak's shop have just kept pace with the growth in the equity markets over the past five years.

At Mellon Bond growth has tracked the Lehman Brothers aggregate bond index. But Mellon Capital's growth has lagged its leading benchmarks. Only Mellon Equity has recently outpaced its key benchmark.

The fact is, some sophisticated clients prefer this slow-growth trend. "Mellon Capital's rate of asset growth doesn't disturb us," says Dennis Furey, the director of investment management at Armco's pension plan, which invests \$350 million with the unit. "Growing in line with the market may allow them to utilize a finite capacity in some products, and I'd rather see them grow in an orderly fashion — not just be big for the sake of being big."

One consultant echoes that sentiment: "Franklin Portfolio has, to its credit, been more concerned about preserving alpha

Mellon Capital's 15.7 percent growth in assets last year trails much bigger rivals: 46 percent at Barclays Global Investors and 30 percent at State Street Global Advisors.

For institutional products Condrón and O'Hanley crave significant distribution through Dreyfus, which has tried to take on a disciplined, institutional look since chief investment officer Stephen Canter joined in May 1995. "This was not a strong investment environment," says Canter, the former CIO of Mitchell Hutchins Institutional Investors. "It was a big job. There was only one institutional-quality fund, in small-cap equities. But beyond that, it was not well-defined."

Canter added a taxable-bond discipline to Dreyfus's fixed-income prowess and delineated five internal equity "shops" — growth, growth and income, international, small-cap and value. A new cash and stock incentive scheme helped him attract 23 senior and midlevel investment people, and résumés, he says, are pouring in. For product, Canter then tapped Mellon's full complement of institutional investment subsidiaries.

The result: 26 Dreyfus mutual funds are now managed by other investment subsidiaries. "We are leveraging their investment expertise," says Condrón, who wants to channel institutional-style products into variable annuities and defined contributions in the U.S. and into retirement markets overseas. O'Hanley, meanwhile, sees opportunity in the property and casualty insurance industry, which invests only 5 percent of its \$2.6 trillion asset base with outside money managers — not necessarily those that match returns to liabilities. He also sees potential in defined contributions. "Look at the time and money that corporations put into selecting defined benefit managers, and contrast that with what they offer in defined contributions, which are basically blind pools of risk," he says.

But Dreyfus's famous bond offerings are suffering net redemptions, and even its actively managed institutional products are not selling strongly. The \$659 million Dreyfus Core Value Fund, managed by Boston Co., is the largest of these funds; its asset growth merely tracks the equity market, however. Assets at five new Dreyfus equity funds taken on by Boston Co. since 1995 still total only \$316 million. And nearly 90 percent of the \$3.8 billion in assets sub-advised by Mellon Equity is in straight index funds. (The sophisticated Dreyfus Wilshire Target funds, opened in 1993 to index large- and small-cap growth and value, also failed to attract assets, thanks to minimal promotion, and were last year turned over to Wilshire Associates, on whose indexes they are based.)

What's the problem? "If Dreyfus had [Pimco chief investment officer] Bill Gross's shoot-the-lights-out numbers, they'd sell," says an East Coast money management business consultant. "People would find a reason to do business with them. But they don't."

To be fair, Mellon's numbers are good — just not terrific. In the 12 months ended June 30, 33 percent of Dreyfus's 60 long-

term bond funds were in the first quintile for their peer groups, according to Lipper Analytical Services. That compares with 28.5 percent at Federated Investors, 25 percent at Capital Group and 19 percent at Fidelity Investments. Of competitors measured, only low-fee Vanguard Group did better — with 50 percent of its long bond funds in the first quintile.

In equities Dreyfus landed 42 percent of its funds in the first quintile, compared with 33 percent at Capital Group, 30 percent at Federated, 29 percent at Vanguard and 20 percent at Fidelity. But Dreyfus's equity performance has been short-lived: For the three-year period through June, only 16.6 percent of Dreyfus's equity funds were in the top quintile, and for five years, just 7.6 percent.

A more serious problem has been Mellon's marketing failures. Sources say it has cut the annual advertising budget from \$60 million for retail alone to \$30 million for the entire company since Dreyfus was purchased. Dreyfus says it has increased the budget but refuses to provide details, except to admit that the current budget is for the entire company and now includes fulfillment. And there has been a failure to build the technology needed to penetrate the defined contribution market. Dreyfus

Retirement Services has accumulated a mere \$5.3 billion in defined contribution assets, and Mellon Bank, an equally mediocre \$17.5 billion — imperceptible dribbles in the vast \$1.93 trillion sea of U.S. defined contribution assets.

"Prior to Mellon, Dreyfus didn't believe in the 401(k) market," O'Hanley concedes, although sources close to the company counter that it made real, albeit unsuccessful, attempts to crack the market. "It's a tremendous disadvantage. We are definitely behind the eight ball."

That may explain defections of key Dreyfus marketing people in the past year — 401(k) head Barbara Casey to Fidelity, product manager William Glavin to Scudder and institutional veteran Elie Genadry to form CNS Financial in San Francisco. Now Dreyfus has hired Michael Devine, a former securities services director of the Royal Bank of Scotland to head the effort — not exactly the classic training for the 401(k) market.

"People look at Dreyfus as a retail company," says Genadry, who now sells funds to broker-dealers through his own firm. "But even before Mellon, Dreyfus had 53 percent of its assets in institutional channels. Those sales really outstrip retail, and Kip [Condrón] understands that." Yet sales through banks, broker-dealers, insurance companies, financial planners and even consultants and actuaries are hardly skyrocketing. In part Mellon wants recently acquired Buck Consultants to help package its money management units for those markets.

Even in retail Dreyfus has been noticeably undermarketed over the past few years. And the much-heralded Dreyfus Lion Account faces serious hurdles. The product was introduced in January to emulate — and best — the Merrill Lynch Cash Management Account as well as Charles Schwab & Co.'s One Source and Fidelity's FundsNet mutual fund supermarkets by adding low-cost advice and, soon, consumer, home equity and

**In many ways
Mellon Bank,
like the money
management industry
generally, stands at
a crossroads.**

student loans. But the initiative still has no central computer system to support it. "It's all smoke and mirrors," says the business consultant, echoing other sources.

More than anything else Mellon cries out for centralized planning and investments in marketing, information technology and research. Consultants and analysts say Mellon has invested virtually nothing in a centralized infrastructure for money management. Fidelity, by contrast, will spend \$100 million on its defined contribution technology alone this year. Ask Cahouet about investments in such technological items, and he blithely refers to the \$3 billion-plus spent on acquisitions since 1993.

Indeed, Cahouet believes that centralized spending or planning is cultural anathema. "The boutiques have been outperforming our plans right along," he insists. "They can create their own energy and be successful with a multiplicity of business entities. We have never thought about consolidating. We don't drive toward a monolithic attitude or style. We think that you can get too big in that business."

Condrón seems to agree. "I'm sure there are people who would like to consolidate all of their relationships," he says. "But I can give you an example of a very large pension fund that would rather have our four separate organizations dealing [with them] the way they are. We can go either way." Only O'Hanley notes that if he were starting from scratch, the group of institutional boutiques known internally as Mellon Global Asset Management would not be built as it is now, so that coordinating anything in that business takes at least six calls.

Ironically, Condrón and O'Hanley need powerful tools to overcome the marketing weakness widely traced to Cahouet's legendary — and very centralized — penny-pinching. One former insider refers to Cahouet as "banking's Chain Saw Al [Dunlap, chairman of Sunbeam Corp.]." Indeed, the year Mellon bought Dreyfus, Cahouet announced plans to cut \$60 million from their combined \$2.1 billion overhead by 1996.

Observes another ex-Mellon employee, "On paper Mellon should own the world. The question is, Why aren't they the No. 1 money manager in the country? They have decent funds. They are the perfect United Asset Management [because] they don't overlap. But they can't compete with a State Street or Brinson or Pimco or J.P. Morgan or Barclays Global Investors, all of which have major ownership by a bank or insurance company. The model is very clear — centralize to cut costs, and get marketing together."

O'Hanley, at least, is pushing growth incentives. "The obstacle has been the historical way [boutique managers] were paid," he says. "A pool carved out of current earnings rewards maximization of current earnings, not growth." Following the Boston Co. example, O'Hanley put in a new long-term compensation package at Mellon Capital this spring, through which principals will get a base salary, a bonus tied to performance and current earnings, and an equitylike long-term component tied to the three-year moving average of the firm's growth. "Getting it right at Mellon Capital will make it much easier everywhere else," O'Hanley says.

Some sophisticated clients prefer Mellon's slow-growth approach.

There is, of course, some cross-pollination occurring between other channels, too. Boston Co. manages \$300 million in its core-value style for two broker-dealer wrap programs. And Mellon Capital is building a product for Mellon Private Asset Management's taxable accounts that will evaluate tax consequences before making any trade.

MPAM, which has inexplicably built its own portfolio management staff to run \$30 billion, represents huge untapped potential. MPAM regularly buys Mellon Equity's modeling formula and modifies it in-house to manage some \$11 billion, including private-client assets and the Dreyfus Disciplined

Stock and Premier Small Company funds. "The fact that Mellon Private Asset Management doesn't use Mellon's institutional capability is interesting," notes one competitor. "If you are a private banker and you have Boston Co., Mellon Capital and Mellon Equity, you'd want to tell your clients, 'This is what institutions buy.'"

Mellon's biggest unmined vein, however, is its \$1 trillion-plus under administration and custody. Mellon Trust's

marketing and service legions are only beginning to approach clients about the bank's institutional money management skills. Mellon Capital's Loeb recently landed a \$300 million index account this way. And one West Coast chief financial officer who already invests a bit with Mellon now wants the bank to take over management, trust and custody services for the entire \$750 million in his defined contribution and defined benefit plans, with add-on advisory services from Buck. Since February, O'Hanley says, Mellon Trust has made eight such proposals. "People laugh at bankers," he adds. "But a banker still has a much tighter relationship with any corporation than a money manager. We're learning how to grow through that channel."

O'Hanley also has big overseas plans evident in his promotion of the otherwise little-used name for the institutional units — Mellon Global Asset Management. "Non-U.S. investors are very important to us," he says. "Given that pension schemes in most Latin American countries and Europe, with the possible exception of the U.K., are still in a state of flux, it's hard to say we are too late. But distribution will be key." (Cahouet abandoned the bank's first international-equities joint venture, Mellon Pictet International Management, in 1990, when assets were only \$1 billion after ten years.)

Clearly, Condrón and O'Hanley share a grand vision of Mellon's future in money management — what O'Hanley calls "intelligent distribution across business silos." The question will be how quickly this decentralized colossus can provide the complex services the market wants, particularly given tough competition.

The clock is ticking. If Condrón and O'Hanley can't rapidly coordinate and grow Mellon's disparate parts (and maybe even if they do), someone else is likely to try. The pair recognizes the situation. "Takeovers have become an issue for 99 percent of all financial providers," O'Hanley concludes. "You either grow for yourself, or you grow for whoever will take you over. The emphasis of Wall Street is on growth. Our emphasis is growth. Everyone is working for the same thing." ■