COVER STORY

Think local, act global

Can Charles Brady's Amvescap fulfill its global ambitions and still stay independent?

Some merger partners circle each other warily for years. Not Charles Brady and Ted Bauer.

Brady had built Atlanta-based Invesco into a midsize institutional money management power. Bauer, working out of Houston, had fashioned a small but ambitious mutual fund outfit called AIM Management Group. Operating in the same region and business for decades, the two entrepreneurs-turned-CEOs had gone about their life's work entirely oblivious to each other — until they sat down to negotiate a deal.

"I had never even heard of AIM," admits Brady.

That was 1996. Three years later Brady and Bauer are making themselves known in a big way to the entire investment world. The company they created, Amvescap — augmented by last year's acquisition of Chancellor LGT Asset Management — now ranks as the world's largest publicly traded pure asset management company. With $281 billion in assets spread globally over the mutual fund, pension and defined contribution businesses, it is an early leader in the race to sell money management products around the world.

Though assets and revenues remain predominantly U.S.-based, Amvescap boasts a diverse array of client types, asset classes, distribution channels and geographic locations. Incorporated in London but headquartered in Atlanta, Amvescap now has 5,000 employees operating out of offices in 25 countries, serving clients in 100. That's up from 3,500 employees in 18 countries a year ago. It ranks among the top five foreign managers in Canada, Germany, Hong Kong and Japan and is marketing aggressively in the U.K., Germany and France, where it listed its shares on the Paris Bourse last year (it was al-

Troy Plota

Brian Coats

AIM Management Group CEO Graham (left) and Amvescap vice chairman Bauer: "Nothing," says Bauer, "is going to happen unless the insiders want it to"

ready traded in London and New York). Amvescap shares traded at $10.91 late last month — off their peak of $12 — despite record first-quarter pretax profits of $114 million on record revenues of $395 million.

Now Brady has set an even more ambitious goal — $1 trillion in assets within ten years — and some analysts praise the rather ungainly global enterprise as a model for money management. "They don't need capital, they don't need distribution, all they need is time to unwind the built-in profitability and to tap into a savings market that is growing globally," says Schroder Securities money management analyst Anthony Cummings in London. "It's the best play in the quoted domain of the global investment management business."

The race for size and scale is an industrywide phenomenon, of course. Over the past few years, companies have been merging frantically. Buyers have gotten bigger. Sellers have gotten rich. But turning a stitched-together, globe-spanning company into a real business success is another matter. Witness the difficulties that Alliance Capital Management experienced with its 1996 purchase of Cursitor-Eaton Asset Management. Merrill Lynch & Co. has had its own problems with Mercury Asset Management, which it bought in 1997. Growing pains have forced mutual fund giant Fidelity Investments to restructure. And, at many firms, senior executives struggle in unfamiliar roles. Last fall co-chairman Frederick Grauer resigned from Barclays Global Investors after an apparent clash with his parent bank; more recently CEO Gary Brinson said that he would be stepping back from management at UBS Brinson Partners (which had combined UBS and SBC's money management arms).

Amvescap's own challenges begin with a management and governance structure that would tangle most companies up in knots. Four well-regarded executives act as quasi-CEOs, each managing one of Amvescap's main operating divisions. The board of directors, designed to balance power between Invesco and AIM Management Group interests, will operate until 2002 as though Amvescap is not one, but two companies. Chairman Brady holds the tiebreaking vote, but purchase agreements that went into effect in 1997 prohibit him from voting down any decision made unanimously by either the AIM or Invesco blocks.

In many respects, this unusually cautious governance structure works just fine. But one crucial element is missing — a clear successor for Brady. The 64-year-old chairman, who flirted with retirement 14 years ago, professes not to be too concerned. Amvescap, he says, "is not going to be a one-person show in the future, for certain."

But running Amvescap's far-flung businesses would tax an all-powerful CEO, let alone a committee. The company faces several delicate maneuvers, not least completing the integration of Chancellor LGT, its pricey $1 billion acquisition. Chancellor LGT's global operations nearly doubled Amvescap's non-U.S. assets, to $41 billion, but cut operating margins from 35 to 30 percent in 1998.

These potential problems are difficult enough to have already created some industry speculation that Amvescap — no matter how well positioned or flush with assets — might not survive on its own once Brady retires. For as fast as Amvescap can grow internally, it may yet be outmaneuvered by financial services giants determined to create, at any cost, huge companies that reach across businesses and borders.

Nor will company executives be free from the temptation to turn their stock into even greater fortunes by selling out to an eager acquirer. Amvescap senior managers, who control 38 percent of the stock, rank among the financial services industry's wealthiest executives. That is especially true of semiretired vice chairman Bauer, 80, who is now worth about $480 million. Already some press reports have raised the possibility that a newly public Goldman, Sachs & Co. may be eager to buy Amvescap.

Brady won't discuss the prospect. Bauer speaks more frankly: "Let's be honest: I hope Amvescap is going to stay independent. But markets are moving so rapidly, who knows what will happen? The only thing I can tell you for sure is that nothing is going to happen unless the insiders want it to."

CHARLES BRADY AND CHARLES (TED) BAUER started building their separate money management empires far away from the world's financial centers and long before anyone dreamed of trillion-dollar pots of assets. Southerner Brady and New Englander Bauer began their careers at large companies before finding their calling as entrepreneurs.

An engineer and former U.S. Navy lieutenant, Brady first tried selling stock before landing a job in 1964 in the trust de-

partment of Atlanta's Citizens and Southern National Bank, whose chairman, Mills Lane, was looking to woo big Southern pension accounts away from the major New York banks that dominated the business. "Lane pulled out his drawer," recalls Brady, "handed me a psychological test, graded the darn thing right there and said, 'You're going to run our investment counseling business.'"

Early on, Brady ran stock and bond portfolios and helped recruit new accounts through the bank's trust department. Then, in 1971, thanks to a change in the banking laws, C&S became the first U.S. bank to register with the Securities and Exchange Commission as an investment adviser. The unit was incorporated as Citizens and Southern Investment Counseling Co.

By 1978, though, C&S had run into loan problems. For $230,000, the bank sold the investment unit to Brady and its eight other employees, who formally renamed it Invesco. "After expenses, the business made $600 a day, and all of it had to go to pay our loans," says Brady. "We had to grow." Brady targeted the large corporate pension fund clients of major banks — a sensible strategy based on an old punch line. "We were like Willie Sutton. We took the money from the banks because they had it," says Brady, paraphrasing the legendary American bank robber. Eight years and many cold calls later, Invesco had grown from $250 million to $8 billion in assets under management.

But Brady, before most U.S. managers, thought he might find even faster growth overseas. He wanted to find a partner rather than try to build his own operation from the ground up. A London stockbroker introduced him to Lord David Stevens, who controlled the *London Daily Express* and ran old-line London manager Montagu Investment Management. In 1985 Lord Stevens had arranged a deal in which the publicly traded Britannia Arrow, another British money manager, took over MIM but gave Lord Stevens control of joint operations. Brady had heard warnings about Lord Stevens' ties to flamboyant financier Robert Maxwell, who for a time owned a 20 percent piece of Britannia Arrow. "People thought they sailed too close to the wind," says Brady. In time the critics would be proved right, but Britannia Arrow had $8.5 billion in assets, and Stevens was willing to leave Brady in charge of Invesco. So in 1986 Brady sold 45 percent of his firm to Britannia for nearly $68 million.

There were problems from the start. Invesco was growing far faster than Britannia Arrow — its assets had risen 20 percent, to $10 billion, by the time the sale closed. Brady wanted to expand the business but found the financing arrangements with Britannia far too frustrating — the English wanted his group to fund 55 percent of all new Invesco investments — so Brady decided to sell out entirely. In 1988, on a 12-hour flight from Tokyo to London with Lord Stevens, he negotiated the sale of the remaining 55 percent of Invesco to Britannia. The price for the rest of Invesco, which by then had $14 billion in assets: $72.3 million in cash and a $60.7 million note convertible no earlier than 1993 into 34 million shares, or 12 percent, of the parent company, at £1.05 a share. When the deal closed in 1988, the company was renamed Invesco MIM.

Brady continued to run the Atlanta-based U.S. operations and took over the Denver-based no-load mutual funds Britannia bought in 1982. But he began to eye early retirement. Then the company was hit with a series of shocks. The performance of some of MIM's London-based investment trusts collapsed, just as the firm was spending millions to expand in Europe and Japan. The U.K.'s Investment Management Regulatory Organisation began investigating Invesco MIM for overly aggressive retail fund sales practices in the U.K. In a macabre twist Maxwell drowned off his yacht in the Atlantic Ocean off the Canary Islands. His death led to revelations about problems at his business empire's pension plans, some of which were managed by Invesco. IMRO expanded its investigation to include the Maxwell pension plans.

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Brady abandoned any thought of retirement. The value of the 12 percent of Invesco MIM's float he and his U.S. partners controlled was plummeting: The convertible shares they had received in 1988 had plunged from an expected $73 million to about $34 million by late 1992. One plan — for Brady to spin off the U.S. operations — was rejected by Invesco MIM's institutional shareholders and board. Instead, he found himself pulled in deeper. After protracted negotiations, the shareholders and the board accepted a plan in which Brady became CEO of Invesco MIM. Lord Stevens was forced out in 1993, the same year the company was hit with $3.5 million in legal fees and fines, at that point the largest penalty IMRO had ever levied.

Although Invesco was itself not implicated in any of Maxwell's pension improprieties, the firm paid an additional $17 million to settle related lawsuits. For Brady, who quickly dropped the scandal-stained MIM name, it was a sobering lesson about the costs of picking the wrong merger partner.

Still, with the U.S. money management business booming, Invesco's underlying businesses remained strong, thanks to healthy returns, powerful marketing and excellent client service. By the end of 1995, Invesco's 23 retail mutual funds had assets of roughly $12 billion. Worldwide, Invesco managed more than $83 billion in assets, earning $78 million in operat-

Robin Thomas

Putnam Lovell's de Guardiola: The matchmaker who helped put Amvescap together

ing profits on $300 million in revenues. But performance varied geographically. "We were losing money in Asia, breaking even in the U.K. and making money in the U.S.," says Brady, who saw both assets under management and profits tank in the U.K. "We lost those five years. But we went right back to the global plan that we had tried to put in place in 1989." That is: Build a pool of investment capital that could help speed the Asian effort, add new talent, and fortify the global reach.

By 1996 Roberto de Guardiola, then an independent investment banker who later became a partner at San Francisco–based investment bank Putnam, Lovell, de Guardiola & Thornton, began to prime Brady on another merger partner, Ted Bauer's AIM Management Group. Brady had every reason to be cautious, but he was eager to gain new products in areas he lacked — namely, U.S. load mutual funds. "It took me about 30 seconds to determine that I wanted them," he says.

Terry Vine

AIM chief investment officer Crum: Overseeing the difficult integration of Chancellor LGT into AIM's retail business

AIM NEVER HAD TO CONTEND WITH A MAJOR regulatory investigation — let alone a drowned tabloid publisher — but the Houston-based mutual fund outfit had had its own struggles when it floated into Brady's view. And AIM was fiercely independent and not likely to rush into anyone's arms.

Ted Bauer had built his fortune and his mutual fund company from scratch. A Bostonian and World War II U.S. Navy bomber pilot, Bauer was managing money for Houston-based American General Insurance Co. in the 1970s, when it considered spinning off or selling its capital management subsidiary. Then, in 1976, AG backed away from the plan. Bauer, who had built assets under management at the unit to $1.8 billion — nearly 4 percent of the entire industry at the time — was left dangling. Then 57, he quit.

With $487,000 in capital and a $2 million line of credit, Bauer and five former AG managers opened AIM Management Group. They owned 38 percent of the fledgling company; two outside investors controlled the remainder. AIM launched a junk bond fund, a convertible fund and a money market fund. All did poorly, and by late 1980 the firm had nearly run through its money. "We were close to the end," recalls AIM Management Group president and CEO Robert Graham, who then ran the firm's administrative, compliance and legal affairs.

Desperation breeds inspiration, when it doesn't breed panic. Scrambling for a winning formula, AIM launched an institutional money market fund resembling the pioneering one run by Federated Investors — but with a twist. AIM cut its fees deeply. "We broke the fee schedule," says Bauer. "The average money market fund for banks charged 35 basis points; Federated charged 45 basis points. But we brought our fund for 20, and as assets grew, fees fell to 16, then to 10, 6 and 5. We told Goldman Sachs we would have $2.5 billion in assets in a year, and we did."

Building on its success, AIM launched new equity funds — chief among them the Summit Fund for U.S. armed forces. The company snapped up other, complementary equity funds, including $168 million-in-assets Weingarten Fund, $102 million Constellation Fund and $75 million Charter Fund, all in 1986. AIM attached its name to its acquisitions, converted them into load funds and marketed them aggressively, as it still does today. By 1987 the firm had $9.9 billion under management — mostly in money market funds. With just $592 million in equity funds, the company sailed through the '87 stock market crash unscathed. AIM ended the year with far more assets than it had begun the year with.

AIM's growth took off in 1989, a year after it hired marketing whiz Michael Cemo, an AG veteran. Cemo smothered major Wall Street firms with sales coverage, tailoring products that the giant wire houses could sell to their millions of clients. In 1990 he hired eight wholesalers to focus just on servicing Merrill Lynch brokers. In 1991 he launched a product called the G-set Series Unit Trust, composed of half zero-coupon U.S. government bonds and half the Weingarten stock fund. His target: Prudential Securities. "We got in front of every broker at Prudential, 1,300 of them," Cemo laughs. "For every dollar of the G-set they sold, they sold $4 of Weingarten. We did $400 million of Weingarten at Prudential."

When Cemo joined AIM, it had $12 billion in assets. Five years later the company was managing about $25.3 billion. Fund performance helped. From 1986 though 1993, while the Standard & Poor's 500 index grew by 13.56 percent annually, the Constellation Fund, under manager Harry Hutzler, returned 21.28 percent, and the Weingarten Fund returned 15.76 percent.

Still, Bauer itched for faster growth and began to look outside the U.S. When one of AIM's original outside backers, a Houston investor named French Peterson, died in 1987, Bauer hired PaineWebber to help find a new financial partner with global distribution that could take over Peterson's 20 percent stake. In May 1990 Dutch insurance giant Nationale Nederlanden, soon to become International Nederlanden Group, or ING, bought the Peterson stake for $4.5 million. For $5 million it also acquired convertibles that carried the option to buy an additional 40 percent in three years from another original AIM backer, Mandy Moross, a South African investor. AIM insiders now held 40 percent.

By 1993 AIM was throwing off annual cash flow of about $45 million, although roughly half the assets were still in money market funds, and insiders expected the Dutch company to exercise its right to buy the controlling stake. But its recent merger with the Netherlands' NNB Postbank to form ING had

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temporarily disrupted its global strategy, and it balked at paying up. AIM's success had pushed the value of its private shares from $15 to $108 apiece. Three years after paying just $9.5 million for 20 percent of AIM, the Dutch would have to now pay $120 million for a further 40 percent. They chose not to.

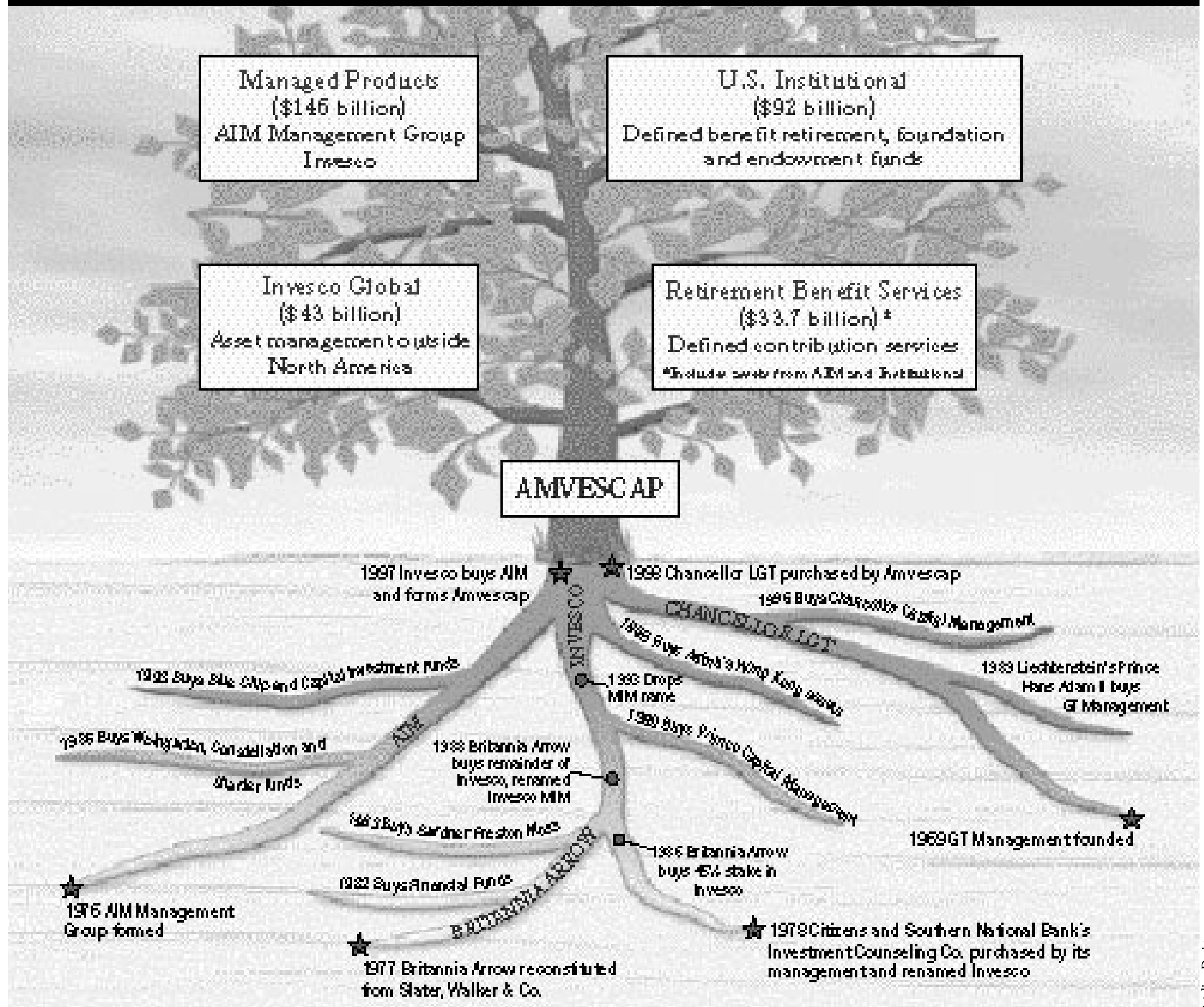
"It was one of the greatest mistakes of all time," says investment banker de Guardiola.

Moross still wanted to sell his stake, to beat a threatened tax law change, so Bauer began looking for a buyer. Only Boston-based TA Associates was willing to let Bauer's group obtain enough stock to keep control. For $35 million in cash, TA agreed to take a 30 percent stake, help raise an additional $185 million in debt from a bank syndicate and leave 70 percent ownership with Bauer, Graham, chief investment officer Gary Crum, who was another of Bauer's original partners, and 60 other AIM insiders. ING and Moross sold their holdings to the group. (ING's only condition was that TA and AIM agree not to sell the recapitalized shares for at least three years.) The end result was a highly leveraged company whose insiders had obtained an additional 30 percent of sweat equity in exchange for adding $185 million to the company's balance sheet. Effectively, this was a traditional leveraged buyout in an industry that until then had seen little such activity.

By the end of 1996, a combination of strong performance and marketing had more than doubled AIM's total assets, to $63 billion. That year the company had $360 million in revenues and threw off a stunning $173 million in earnings before interest, taxes, depreciation and amortization. By paying down debt, AIM had reduced annual interest payments to just $13.5 million. After two decades of quiet hard work — and with an annual advertising budget averaging $5 million — Bauer's team had built the 12th-largest mutual fund family in the U.S.

The then-77-year-old Bauer, however, still had a wish list. He wanted global reach. And he wanted to monetize the insiders' now–72 percent stake (Bauer, Graham, Cemo, Crum and

How the Amvescap empire grew



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three other executives held 53 percent, and 77 other employees held 19 percent). Bauer also wanted to move up the mutual fund ranks. With the three-year no-action period with ING set to expire in June 1996, a host of investment bankers began calling on Bauer, including his friend de Guardiola.

The list of candidates included at least 70 names. But de Guardiola, who is now on Amvescap's board and owns $29 million worth of its stock, insists he proposed only one: Invesco.

TED BAUER IS NO LORD STEVENS. A MODEST man, he lives in the house he bought 28 years ago. And Charlie Brady, a CEO who greets visitors to his Atlanta offices with shirt-sleeve casualness and frosty glasses of Coca-Cola, was a type more familiar to Bauer than a Dutch insurance executive. In many respects, too, the companies had complementary needs and product lines. AIM was looking for a deal with a public company that would bring balance to the business, preferably with institutional, no-load fund and global product offerings. Invesco wanted retail clients and product.

Still, the two CEOs approached each other cautiously. Bauer, who did not want to relinquish control or voting power, insisted that all operational details be worked out in advance. "We had meeting after meeting on corporate governance," he explains. "We were centralized, with our legal, accounting, marketing, the whole nine yards in Houston. His was a federal operation, with autonomous units around the world."

Much of the discussion centered on who would control the new company's board. The decision wasn't easy. AIM may have ended 1996 with one third fewer assets than Invesco's $95 billion, but it was growing 34 percent a year and was projected in the coming year to contribute more than half of the combined company's revenues and more than 70 percent of its profits. AIM insiders would own roughly 32 percent of the combined company — much more than the 10 percent or so, including options, in Invesco hands.

In the end, Invesco's Brady became chairman and CEO, but Bauer and the AIM contingent won the corporate equivalent of a veto. The 15-member board would have seven Invesco seats and seven AIM seats. Brady would control the tiebreaking vote — although he would be blocked from voting for anything that either the AIM or the Invesco directors unanimously opposed. The two companies also decided to keep their old names on their operations, for marketing purposes.

In September 1996 AIM finally agreed to be bought by Invesco. The $1.6 billion merger was financed through a $180 million rights offering of 54 million shares, $320 million in debt and the issuance to TA and AIM insiders of $1.1 billion in Invesco stock. By the time the deal closed, in February 1997, Invesco's shares, listed on the London Stock Exchange, had soared by 50 percent, boosting the company's market value to $2.2 billion. Among the biggest winners: TA, which sold its stake over the next two years for some $400 million, more than 11 times what it paid.

Brady quickly merged the Denver-based Invesco no-load mutual fund family, inherited from MIM, into AIM Management Group. But otherwise he had hardly begun the task of managing under one roof two very different companies when he got a chance to buy Chancellor LGT Asset Management. Whether or not to buy it quickly became the first real test of Amvescap's offbeat corporate structure.

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The late-1997 decision by Prince Adam II of Liechtenstein to unload his money management company certainly put an end to one of the stranger — and least successful — experiments in building a money management business. But even in its rundown state, Chancellor LGT, which the prince had cobbled together over a decade and whose assets had peaked at $65 billion early in 1997, had many attractions (Institutional Investor, July 1998). Chief among these: a $17 billion global operation that ran institutional accounts, mutual funds, offshore funds, unit trusts and other assets around the world. But Chancellor's U.S. institutional business was losing assets. So, too, was its GT Global business, where assets under management in 25 U.S. mutual funds had plunged from $12 billion in 1995 to $9.8 billion in mid-1998.

Troy Plota

U.S. institutional business head Frazier: "We became a significant active institutional management house"

On their own, Brady's new AIM colleagues would probably have passed on the deal. AIM president and CEO Bob Graham thought the integration of Chancellor LGT would take an extraordinary amount of work. Other executives worried that the GT mutual funds would harm AIM's strong investment results.

But Brady and Bauer were bitten by the global bug. They saw more synergies than problems. In Canada, Germany, Hong Kong and Japan, a deal would take Amvescap overnight from zero or little market share to a place among the top five foreign providers of active money management in each of these markets. In Germany, where Amvescap had no assets under management, it would become a $4 billion player. U.K. assets would double, to about $22 billion. A deal would add businesses that would otherwise take years to build. "We were willing because all these were major nations that have to have a retirement system," says Bauer.

A reluctant AIM voting block could have cast a veto, killed the acquisition and perhaps done great damage to the Invesco-AIM partnership. Instead, they bought into the strategic logic of the deal, leading Brady to bid for the company aggressively.

About 50 potential buyers examined Chancellor LGT's books, but only a few — offering roughly $1.1 billion, including the assumption of $300 million in debt — put in formal bids. Brady offered four times management fees, or $1.3 billion. But his bid depended on assets and revenues, and the final price came in at slightly more than $1 billion when the deal closed last May.

"The price got blown up in the press," says Brady. "But we

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said we'd pay for the assets and the revenues they could deliver, and we never thought they could deliver them all."

It's too soon to tell how the acquisition will play out. But for all the expense, and some tough moments, Amvescap can point to early success with the deal, which many think has satisfied Brady's key global ambitions. Despite the sorry state of Chancellor LGT's U.S. businesses, Amvescap has salvaged some $26 billion in assets domestically, including about $8 billion in retail GT mutual funds plus some $18 billion or so from the Chancellor institutional accounts based in New York.

Amvescap quickly slashed costs by at least $60 million a year, in part by laying off some 400 of Chancellor LGT's 1,200-person workforce; most of the cutbacks came in the GT mutual fund operations in San Francisco and London. Over the next several years, more savings are planned, as Amvescap consolidates its back-office accounting and technology operations in Houston, where AIM has enormous processing capacity — one of the great side benefits of the AIM acquisition for Invesco.

"Nuts, they process 50 times more transactions than we do, so we will be working off an installed base," says A.D. Frazier, the former Atlanta Olympics Committee chief who now heads Amvescap's U.S. institutional business. Frazier plans to transfer some of the back-office technology to Houston.

To be sure, many of the dire predictions voiced by AIM executives have come true. Amvescap's performance — at least short term — has suffered from the purchase. Overall assets under management in Invesco, which now contains Amvescap's U.S. institutional business, remained steady last year at $92 billion. But that disguises severe client redemptions of about $13 billion in Chancellor LGT's large-cap growth and small-cap funds and Invesco's value equities accounts. Market appreciation and client gains in areas such as enhanced equities and venture capital helped balance the losses. Chancellor's institutional large-cap growth product has been a disaster, falling to $1.5 billion in assets by March of this year from a January 1997 peak of $16 billion — at a time when that market sector has soared.

"I've been disappointed with the large runoff in large-cap growth assets," sighs Frazier, "but we knew some of that was going to happen. We have made a lot of changes, and we are starting to get that right."

Did Amvescap overpay for Chancellor LGT? "Hell no," Frazier says. "We started out with seven institutional products across $81.9 billion in assets and ended up with 26 products and $92 billion in assets. We became a significant active institutional management house. With this acquisition our clients now include 800 retirement plans, unions, government accounts and endowments."

The integration of Chancellor LGT into AIM's retail business has been more difficult. The acquisition added 25 U.S. mutual funds, bringing the total to 54, but the poor returns of some of the GT funds have dragged down AIM's overall performance, which makes for a tough sell. "The performance of the GT funds was not good, and it has changed our own numbers," admits Graham, who now heads the $146 billion U.S. and Canadian mutual fund unit.

Until 1998 AIM routinely placed two thirds of its funds in the top halves of their respective Lipper Inc. performance categories. But this year, for the 12 months ended March 31, only one third of its funds did that well. AIM's rankings put it below such broker-sold competitors as Capital Group, which has remained stable, with 53 percent of its funds in the top two quintiles; Putnam Investments, with 42 percent; Oppenheimer Funds, with 44 percent; and MFS Investment Management, with 46 percent, according to Lipper. But AIM reports that on an asset-weighted basis, 82 percent of its U.S. stock funds still outperform the S&P 500.

GT shareholders and brokers have been understandably skeptical — and the funds have been plagued by redemptions — but Graham is confident that longtime CIO Crum can fix the mess. He has certainly been active. Since last May Amvescap has changed the names of all 25 GT funds; 19 funds have been merged with others, had portfolio management changes or both. All this has produced a level of compliance and regulatory work that would spook any fund company.

Nevertheless, even an overtaxed mutual funds business can be a good one. And AIM's mutual funds group remains the company's most profitable division. Despite the difficulties, AIM Management Group generated net new sales of $15 billion last year. It manages half of Amvescap's total client assets but generated 61 percent of last year's $1.3 billion in revenues and 84 percent of the $427 million net profit.

Headaches aside, Brady got the global reach he wanted from Chancellor LGT. Today Invesco Global manages some $43 billion in global assets invested through offices in Buenos Aires, Dublin, Frankfurt, Hong Kong, London, Paris, Sydney, Singapore, Taipei and Tokyo. The division earned $52.7 million in operating profits last year on $249 million in revenues. That's nearly equal to Invesco's entire 1995 earnings before the AIM merger.

Retirement Benefit Services chief Harris: Aiming to make Invesco's defined contribution products available worldwide

Amvescap's global investment empire is now so deep and broad that it can afford to take some hits and still keep rolling. Brady has a solid base in almost every major market, run by independent, aggressive managers. And rather than sit on his assets, he wants to build even more, and faster.

"The U.S. may be the biggest market now, but overseas is going to be the fastest-growing market for the next ten to 20 years. If you're not in that, it's just foolish," says Brady. "We have a very broad product line. We are in mutual funds, global 401(k), institutional money management and offshore funds, and in each of these lines, there will be a group of companies that will be survivors. We want to be among the survivors in every one."

He may get more than survival. In Europe, where most other asset managers are big insurance companies with razor-thin margins, Amvescap enjoys 20 percent operating margins, which

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should improve as the company cuts costs while growing the asset base it acquired.

The firm got a big boost from Chancellor LGT in Japan, too, where deregulation is opening up competition for more than $1 trillion in pension accounts, and $6 trillion in cash is sitting in bank accounts. "Their $3 billion Japanese operation was identical in size to ours, with a better trust company, nicely complementing Amvescap's Japanese institutional business,"says Invesco Global chief Michael Benson, an industry veteran recruited from Capital House Investment Management in 1994 to run Invesco's Asian operations.

Operating margins at Invesco Global are only about half the 40 percent generated by managed products and the U.S institutional business. Benson is aiming for the company's 35 percent benchmark, but he is spending heavily to market and develop immature businesses. Last year Invesco Global gained $2.7 billion in net new funds. "It's a start," says Benson. "We as a group understand profoundly what it takes to run an investment management business, and the prince of Liechtenstein didn't. Inevitably, that will be reflected down this damned good food chain."

Invesco Global's Benson: "We understand profoundly what it takes to run an investment management business"

Amvescap's newest operating group, Retirement Benefit Services, is also poised to capture a substantial share of the growing global defined contribution industry. Now managing $33.7 billion in U.S. 401(k) assets, Invesco has put $15.8 billion of that into a separate profit center under former Invesco CFO Hubert (Herky) Harris. Harris's group already serves some 300,000 defined contribution participants through 400 plan sponsors, although two thirds of its bundled retirement assets are invested in stable-value contracts from Primco Capital Management, an affiliate. But Invesco is the sixth-largest provider of defined contribution plans in the U.S., targeting midsize accounts with $10 million to $1 billion in assets.

Harris hopes to make Invesco defined contribution products available through bundled or co-managed plans worldwide. He aims to have a joint venture up and running in the U.K. before December; in Poland he has already teamed up with the Catholic Church and won a place among the 20 government-approved defined contribution providers. "Poland will be a pooled fund, and each year and forevermore, you're going to have a new crop of people coming into the system," says Harris. "There's great potential." Adds Brady: "We are open for business in Poland, and we have recruited and trained 500 salesmen. That's taking 401(k) out of this country."

U.S. institutional chief Frazier remains optimistic about the years ahead as well. Although the defined benefits market in general is relatively flat, 30 percent of plan sponsors change a manager every year, which is an opportunity for a broad-line manager like Invesco. While pitching new clients, Frazier's 40 institutional marketers are also hunting those that might consider Invesco as a strategic partner. "If we stabilize account losses this year," Frazier says, "it could be a pretty impressive year."

THE GLOBAL MONEY MANAGEMENT competition has just begun. It will play out for years, maybe decades. Who will lead Amvescap through that struggle? That's a good — and unanswered — question.

It certainly won't be AIM founder Bauer. At 80, he plans to give most of his Invesco stock to a foundation set up to benefit Hispanic schoolchildren in Houston. Brady, 64, could lead the company for some time. Amvescap certainly has plenty of talented candidates — Brady is recruiting and grooming a new generation of potential leaders — but the board will not announce his heir until he retires.

On an operating basis, Brady says he effectively has four CEOs under him, each running an operating group — Frazier in charge of institutional, Graham running managed products, Harris at the defined benefit unit and Benson steering the global business. Each one, aged 50 to 55, is a potential successor, yet Brady insists there is no CEO race. In March Amvescap created an executive board that sits under the corporate board to run the business day to day. It consists of eight internal directors plus strategic-planning head James Robertson. Brady may add one or two more members.

Brady is not just counting on goodwill to keep his far-flung executives cooperating. In addition to large stock holdings by company insiders, Amvescap tries to provide the benefits of a private partnership for its 150 global partners. Each year the company sets an operating margin target in hopes of shifting as much as possible of the company's overall cost structure from a fixed to a variable basis, with the goal of holding margins steady even in declining markets. Projected costs that remain unspent are set aside for the partners' bonus pool, of which 80 percent is paid in cash and 20 percent put into stock that vests in three years.

In this way, Brady encourages long-term group thinking. If global partners cut too much from their marginal costs, they will starve their businesses and watch their stock fall. If they cut nothing, they get no stock. Last year the partners' pool earned $75 million in bonuses, of which some $16 million went into stock, a huge increase from the paltry $2 million earned by the partnership's 70 inaugural members in 1994. The vested pool now holds $80 million of stock for the partners.

But, in the end, Brady will have to pick a CEO to run the company without upsetting the Invesco or AIM camps. And, on the way to integrating his company, he can kill off his crazy-quilt board structure in 2002. One company, one board.

Still, compared with what Brady and Bauer endured in building their money management companies — recalcitrant partners, mysterious drownings, government investigators — it's probably not much to pull off. If Brady can manage these final maneuvers, it will be a perfect ending to the story of two great financial empire builders who ultimately found their best partners in the last years of their storied careers.

Not bad work for a couple of strangers. i