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# Win Neugger's

# Win ning ways

AMID AIG'S PROBLEMS, THE ARCHITECT OF ITS STELLAR BUT LITTLE-HERALDED ASSET MANAGEMENT UNIT HAS BIG AMBITIONS.

By Julie Segal

PHOTOGRAPHS BY MARTIN ADOLFSSON

AIG Investments CEO Neuger wants his business to be bigger and more profitable: "We set the target at \$1 billion of pretax profit by 2010"



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# There have been plenty of headlines lately about the problems at American International Group,

the world's biggest insurer. What's rarely mentioned, however, in all the stories about subprime-related write-downs, angry investors and potential spin-offs is one business that New York-based AIG has quietly been getting right for the past 13 years: asset management.

AIG Investments' CEO Win Neuger was hired from Bankers Trust Co. in 1995 by AIG patriarch and then-chief executive Maurice (Hank) Greenberg to pull together the company's highly decentralized investment operations. Neuger did just that, pushing AIG further into a wide range of investments, from real estate to alternatives, along the way. In 2001 he got AIG Investments into the business of managing other people's money alongside its own. Client assets have grown every year since: The low-key and rarely interviewed Neuger now presides over a \$753 billion operation that runs \$625 billion for AIG itself and \$128 billion for outside investors, up from \$44 billion in 2001. Today, AIG is 23rd on the *I*300 ranking of the largest U.S. asset managers (for the full *I*300 rankings, please visit our Web site, [www.iimagazine.com](http://www.iimagazine.com)). Accumulating \$128 billion in outside institutional assets in seven years is no small feat. Consider that despite having been in the institutional asset management business since 1964, mutual fund giant Fidelity Investments currently has \$157 billion in institutional assets under management at its Pyramid Global Advisors unit.

Neuger has also made those assets turn handsome profits. In 2007, AIG's outside assets generated pretax profits of \$466 million. One reason: Neuger was earlier than most of his competitors to get into high-margin areas like hedge funds and private equity. (In 2007, AIG Investments got 23.9 percent of revenues from alternatives, 23.2 percent from real estate, 22.2 percent from fixed income, 10 percent from equities and the remainder from a handful of other businesses.) And Neuger has even bigger ambitions. He aims to double outside assets under management in five years and more than double profits in just two years. To do so, he wants to expand his most profitable strategies, get more assets from existing clients and push further into non-U.S. markets.

"Two years ago we were making about \$300 million from the institutional asset management business," Neuger says in an exclusive interview with *Institutional Investor*. "We felt we could move that up if we applied the right resources. So we set the target at \$1 billion of pretax profit by 2010."

The company is banking on it. "Given our investment in the business, third-party asset management should grow faster than the 10 to 12 percent I've set for AIG's bottom line over time," Neuger's former boss, AIG CEO Martin Sullivan, told *Institutional Investor* before his ouster last month. "Why would that be good?



Because it would provide countercyclicality to our earnings. When there is pricing pressure on property/casualty insurance, for example, AIG Investments and other businesses can be steady revenue producers."

Neuger adds: "How do we think we can do that? Because we're in our adolescence. There's still a long way to go. There are a host of things that we're doing that are relatively new that we think enable us to accelerate that growth."

Given his track record, Neuger may well hit those very large growth and profit targets. "I've known Win since his Bankers Trust days, and he is a top investment professional," says John Casey, chairman of Casey, Quirk & Associates, an adviser to investment managers. "He has been able to get AIG to knuckle down on turning the investments division into a commercial business."

But these are exceptionally trying times, and both Neuger's operation and its parent company have hit the wall hard. Neuger is trying to grow AIG Investments in the most difficult environment in decades, even as he must cope with the severe reputational fallout from the disasters elsewhere at AIG. A key part of his pitch to clients has been a strategy of investing their money alongside that of AIG, or as he likes to call it, "investor-to-investor." Tim Barrett, executive director and CIO of the \$6.5 billion San Bernardino County Employee Retirement Association, which has \$495 million in AIG products, including equities, multistrategy funds of hedge funds, Asian real estate and private equity infrastructure funds, finds the approach persuasive: "They have far more money at risk than we would put in. That dynamic goes a long way toward credibility."

Lately investing with AIG has looked less inviting than it did in the past. Under the autocratic Greenberg, who left in 2005 over still-disputed allegations of accounting improprieties, AIG was a virtual money machine, huge yet entrepreneurial, shrewd and



Kevin Fitzpatrick (opposite) heads up AIG Investments' real estate unit. Connie Miller (above) is the company's chief of human resources and helped CEO Neuger build his team. She remembers that when he arrived, there was a pool on how long he would last. Hans Danielsson (right), CIO for external clients, was one of Neuger's early hires

sharp-elbowed. Since last summer the company has looked far less superhuman. Its losses for the last quarter of 2007 and the first quarter of 2008 totaled \$13 billion, almost as much as its entire profit for last year. Its credit ratings and stock price have been hammered. In February the board announced that Joseph Cassano, head of AIG Financial Products Corp., the company's capital markets unit, which has written down \$20 billion in credit default swaps, was stepping down "with our concurrence." Then

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— John Casey, chairman, Casey, Quirk & Associates

in June, after months of having tried and failed to convince investors that the company's subprime exposure and accounting were nothing to worry about, Sullivan was replaced by board chairman Robert Willumstad. Only a month before, Willumstad had told the annual shareholders' meeting, "We think Martin is the right guy." Now he's promising to meet and perhaps bury the hatchet with Greenberg, the company's largest shareholder, who had been publicly and loudly critical of Sullivan.

Willumstad has promised, as new CEOs invariably do, a fearless and searching inventory of the company's operations. No one following the company thinks, however, that Neuger and his business are likely to come under fire. Cliff Gallant, an equity

research analyst at Keefe, Bruyette & Woods, says, "Asset management is integral to AIG's business; it's not the hot spot they need to address."

AIG Investments has stumbled, though. In the first quarter of 2008, it wrote down \$6 billion on investments in securities primarily related to the mortgage markets in its parent's portfolio. Neuger says the write-downs are a matter "100 percent [of] fair-value accounting. We haven't sold any securities. In a very illiquid market, determining fair value may be a flawed process. We don't expect to have significant losses ultimately on these securities, and we expect over time that we will earn most of them back."

Meanwhile, first-quarter earnings for institutional asset management were a paltry \$5 million, down from \$97 million in the first quarter of 2007. AIG Investments saw its profits hit by decreased performance fees for managing private equity and other investments as well as an increase in so-called warehoused investments — companies bought for its private equity portfolio before client partners have been lined up.

For all of that, however, Neuger's fans say that they don't find the first-quarter results worrying and point out that AIG's asset management quarterly earnings have often been volatile. For the three months ended December 31, 2007, operating income was \$221 million, versus a loss of \$2 million for the quarter ended September 2007. "AIG Investments' earnings are lumpy — there will be large swings — because of private equity, real estate and hedge fund investments," says Matt Nellans, an analyst at Morningstar. "But these investments also generate high fees, and they've got a great business model."

Neuger, adds Casey, Quirk chairman Casey, "has a gold-standard

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reputation, and if he says he wants to grow this business, he'll be able to grow this business."

Says Marshall (Mickey) Cohen, an AIG board member who retired in May and is counsel at the Toronto law firm of Cassels Brock & Blackwell: "Win is not a Wall Street, 'take no prisoners' kind of guy. He manages this huge, complicated portfolio, but he does it with a laid-back and easygoing style that gives you faith. He's a nice guy."

The son of a public relations man, Neuger grew up in the upper-middle-class Minneapolis suburb of Edina. He went to Dartmouth College and completed a five-year program, graduating in 1973 with an AB and an MBA from the Amos Tuck Graduate School of Business. In the midst of a bear market, Neuger felt lucky to land an investment job in Minneapolis at Northwestern National Bank (now part of Wells Fargo), where he eventually rose to head of fixed income. In 1982 he left to become chief investment officer for Western Asset Management Co. (now owned by Legg Mason). Two and a half years later, he jumped to Bankers Trust, then the nation's largest bond manager, on a rescue mission. BT was bleeding assets as a result of poor performance. Neuger, who became managing director first of fixed income and then of global equities, moved it into new areas, such as structured products, asset and liability management and active corporate cash management.

In 1995, Greenberg hired Neuger to bring AIG's far-flung investment organizations under one roof and build a money manager for outside clients using the same infrastructure. "There were two opportunities," Neuger says. "One was to pull together this decentralized operation, create a real significant asset management company, add value straight to the bottom line of AIG. Every nickel that we get in excess return for the balance sheet goes straight to AIG's bottom line. And second, it was this opportunity to do a start-up company."

Neuger consolidated nine teams located around the globe. Connie Miller, AIG Investments head of human resources, whom Neuger tapped to oversee hiring, says it was a difficult job: "Everybody had their appropriate fiefdom in the various businesses, and Win came on board to consolidate that. There was a company pool on how long he would survive."

As an insurer, AIG's own investments have always been heavily weighted toward fixed income. At the moment, AIG Investments has \$370 billion in U.S. fixed income, \$231 billion in international fixed income, \$46 billion in alternatives, \$42 billion in international equities, \$20 billion in U.S. equities, \$25 billion in real estate and \$19 billion in mixed stock and bond strategies. But in building an asset manager for clients, Neuger concentrated from the beginning on higher-margin products. "One of the things that was distinctive about what we did is: Most insurance companies say, 'We're big in fixed income, so what we'll do is lead with fixed income.' We did not," he says. "We instead took high-value-added products that were significant in terms of adding value to the AIG balance sheet and income statement."

When Neuger arrived, AIG already had experience in hedge funds and other high-margin products that could be marketed to outside clients. Kevin Fitzpatrick, now president of AIG Global Real Estate, for instance, had been with the company since 1987. For some products, though, Neuger needed time to establish the track records outside clients demand. He also needed new talent for a number of key jobs. In 1998, Neuger and Miller hired Hans Danielson, who had run international equities at SEB Asset Management in Stockholm, to manage equities, establish a formal process for



investment decisions and develop a system for sharing ideas and research worldwide.

Other talent came to Neuger. He chose Richard Scott, who now heads U.S. and international fixed income, from insurer American General after AIG bought the company in 2001. He also recruited Steven Guterman from American General, to be his first head of business development and to build a marketing and sales organization. In 2005, Neuger brought in Robert Thompson, a founding partner at

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Ferrer Freeman Thompson & Co., a health care private equity firm, and a General Electric Co. veteran, to head alternatives.

That same year, AIG came under investigation for the alleged accounting irregularities that led to Greenberg's exit. Neuger spent a lot of times on planes, visiting and reassuring clients that AIG Investments would not lose its focus. "It was not a fun year," says business development head Guterman, adding that "we didn't hide from clients. We addressed the issues as best we could." AIG Investments brought in more than \$13 billion — a record at the time — by year-end (the roaring stock market didn't hurt, of course).

Of the \$128 billion AIG Investments has in outside assets, the bulk is in fixed income and equities (\$55 billion in domestic and interna-



Robert Thompson (opposite), who oversees alternative investments for AIG, was recruited by Neuger (above, in his New York office) from a health-care private equity firm in 2005

tional bonds and \$34 billion in domestic and international stocks), with \$18 billion in alternatives, \$4 billion in global real estate and \$16 billion in balanced strategies. Private equity performance has been particularly impressive. Fourteen of 21 current strategies that have existed long enough to be ranked are in the top quartile relative to their peers.

AIG's hedge fund portfolio has provided consistent annual returns between January 1988 and March 31, 2008, amounting to 11.71 percent gross of fees since inception. That beat the 11.12 percent annualized return of the Standard & Poor's 500 stock index, but with a 6.23 standard deviation, which gives the portfolio a bondlike risk profile.

Neuger, who has been looking to grow his \$9.8 billion fund-of-funds business, has managed to steer clear of all of the major hedge fund blowups so far. Gerhard Aigner, head of Raiffeisen Capital Management, which accounts for 20 percent of AIG's client assets in funds of hedge funds, says: "We were looking for a manager with a very conservative approach and strong due diligence. AIG hasn't had a single breakdown of a single hedge fund manager, so that's a big comfort factor. This was very important for our clients as well, because they know they are invested alongside the biggest insurance company."

Neuger says he sees opportunity in the credit crisis. AIG is planning to buy troubled debt and mortgages. Matthew Meyer, director of public fixed income, is leading the effort to put together a distressed fund and a mortgage opportunities fund, as well as a credit opportunities fund focused mostly on high yield. "AIG Investments is in no rush. There's more pain to come. But this is the biggest opportunity to

grow external client assets in fixed income we've had," says Meyer.

Neuger also wants to take further advantage of AIG's enormous global footprint — it has 46 asset management offices around the globe, including 11 in Asia and 16 in Europe — to grow funds of hedge funds, private equity, real estate and international equities. Last year AIG Investments opened an asset management company in India and offices in Dubai and Kampala, Uganda's capital. Robert Discolo, head of hedge funds, insists the next great hedge fund managers will be found in places like India and China, not the U.S., and AIG will be among the first to find them.

Although private equity is facing uncertain markets as financing has dried up for deal making, Neuger has built a private equity business with a diverse mix that he believes will help it hold up. AIG was an early investor in infrastructure private equity, now a sought-after asset class. In 1998, Neuger hired Christopher Lee to start AIG Highstar Capital, an infrastructure private equity fund. Neuger has also moved into emerging-markets private equity; developed regional, health care and other niche funds; and gone after small- and midmarket deals that have thrived even as megabuyout funds that relied heavily on leverage have floundered.

AIG's private equity capabilities include funds of funds, direct investments, co-investments and secondary investments in both developed and emerging markets. The firm's private equity has flourished in particular on the investor-to-investor theme. Alternatives head Thompson says he will continue to target emerging opportunities, such as the global nonperforming loans business, where AIG has invested more than \$2 billion in just three years.

Wealth management is another area Neuger wants to build. AIG Private Bank and global wealth management are both distribution channels for AIG products as well as independent advisory businesses for wealthy investors. In 1997, Neuger hired Eduardo Leemann, who built Bank Julius Baer's U.S. private banking business and Goldman, Sachs & Co.'s European wealth group, to grow AIG Private Bank and global wealth management to at least \$50 billion in assets. The group, which has 110,000 clients, has grown from \$4 billion in assets in 1997 to \$17 billion. Neuger wants to expand wealth management into such places as Brazil, India, Poland, Russia, Taiwan and Thailand. He's deliberately skipping the competitive U.S. and opting for emerging markets.

Neuger also plans to expand the financing business. "We want to do more of that in the U.S. and Europe, because we think there's tremendous opportunity given the lack of financing on deals right now. This could easily be several billion dollars that we'd be willing to commit," he says. He also wants to expand the \$3 billion AIG has in real estate funds, again in emerging markets, further away from major cities, and in the U.S.

To meet his goals he will have to sell more products to existing clients. "Getting there relies on doing what we've been doing, which is getting about half of our new assets from existing clients. I don't think we can achieve our growth target unless we continue to do that," Neuger says. "If our base fees and performance opportunities go down in the mix of business we sell, we also won't achieve it. We need to have a high-value-added product that we deliver to the market that has a relatively high average fee level, and we need to achieve superior performance on our alternative products because that's the only way that we will earn performance-based fees for those products. They will be a significant contributor to the billion dollars that we're striving for." ●●