

## Federal Reserve Bank of Boston

**To:** Basel II ANPR Public File

**Date:** July 15, 2004

**From:** Patrick deFontnouvelle and  
Victoria Garrity

**Subject:** Meeting with Mellon Financial  
Corporation Institutional Asset Management

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**Attendees:** Mellon Financial Corporation representatives: David Dirks, Mellon Institutional Asset Management Strategy Director. Federal Reserve Bank of Boston representatives: Patrick deFontnouvelle and Victoria Garrity.

**Purpose:** To obtain information on competition in the asset management business in connection with a study to assess the competitive impact of the Basel II Operational Risk capital charge.

**Perspective:** Mellon Financial Corporation (Mellon) is a financial holding company with total assets of \$34 billion. Headquartered in Pittsburgh, Pennsylvania, Mellon provides institutional asset management, mutual funds, private wealth management, asset servicing, human resources services and treasury service for institutions, corporations and high net worth individuals. Mellon has approximately \$3.6 trillion in assets under management, administration or custody, including more than \$675 billion under management.

### Items Discussed:

#### (1) *Mellon's Institutional Asset Management business*

Mellon's institutional asset management business is housed in the MIAM/MGI group (Mellon Institutional Asset Management/Mellon Global Investments). MIAM includes several subsidiaries that operate in the market under their own brand names as well as under the Mellon name. These subsidiaries include: The Boston Company, Franklin Portfolio, Mellon Equity Associates, Mellon Capital Management, and Standish Mellon in the U.S., and Newton Asset Management in the U.K. Mellon also has two subsidiaries in the hedge fund business, HBV and EACM. Mellon has built its institutional asset management business both through acquisition and organic growth. Last year, MIAM reorganized its business in order to group its U.S. fixed income firms together and its U.S. fundamental equity firms together.

MGI handles international distribution of MIAM products. MIAM markets to clients at two different levels, at the MIAM level and at the individual subsidiary levels. As each MIAM subsidiary provides different products/strategies, each subsidiary could be viewed as being in competition with other firms in the market that are providing similar products/strategies, and therefore each subsidiary has a unique set of key competitors.

Separate accounts are the typical structure in institutional asset management. Some companies, including Mellon, have institutional mutual funds for smaller accounts or for clients who require a fund structure, but institutional mutual funds are a small part of the business.

Mellon serves as a subadvisor, which is part of its institutional asset management activities. Through its subadvisory activities Mellon manages funds for financial institutions clients (including mutual funds and insurance companies).

(2) *Competition*

The major factors influencing competition in institutional asset management differ depending on the product. Overall, important factors include the stability and process of the investment management team and portfolio manager and performance. Larger asset managers (by assets under management) are in competition with some of the smaller firms as smaller firms may have a particular niche strategy that is very competitive. The big issue for the smaller firms is distribution. If a small firm does not have good distribution channels, it can be at a competitive disadvantage. Competition also cuts across geographic and public/private lines. Consultants play a large role in the institutional asset management business as they recommend asset managers to institutional clients. Asset managers want to be on the consultants "short list."

The index market is different in that this is a volume market. In this market there is a concentration of assets in a small number of large firms and small firms are not in this market.

In order to sell institutional asset management internationally, a firm often has a sales office in the geographic areas it wishes to serve.

Industry data sources on competition include: Cerulli, Pensions & Investments magazine, and Institutional Investor magazine. Consultants such as Russell, Callan, Mercer, and Financial Resource Group would also have insight on the IAM industry.

(3) *Capital*

Capital is not a significant barrier to entry in the institutional asset management business. A firm does not need a large amount of capital to get into the business.