

Money Fund Intelligence



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Interview With Invesco AIM's Karen Dunn Kelley

Money Fund Intelligence recently interviewed the Chief Executive Officer of **Invesco** Worldwide Fixed Income and Executive V.P. of **Invesco Aim** Distributors **Karen Dunn Kelley**. Kelley, who joined what was then known as **AIM Investments** in 1989 as money market portfolio manager, now oversees **Invesco's** \$160 billion, 120-person fixed income and cash management business.

MFI: Tell us about your history in the money fund business.

Kelley tells us, "I've been involved in money markets since 1982, which was actually the year that 2a-7 was promulgated. So I would say that I am a veteran in the business, because I have actually been involved with money markets and cash since the introduction of the law.... I have lived through every amendment and addendum to that rule and what it has meant to the business and the industry.

On women in money funds, she says, "I think you've just got a tremendous number of talented people in the money fund business, and I think that has grown and has developed throughout the years. But I do think that cer-

tainly the money market industry has gained insight that having talented experienced high quality people is clearly important."

MFI: What have been the biggest contributors to the success of money funds and to Invesco Aim over the years?

Kelley says, "Everybody you talk to about money funds will focus on the three philosophical tenets – safety, liquidity, and yield. The interpretation of those three little words is the key to the

success of the money market business. We used to say safety is that simple equation that portfolio assets, plus portfolio configuration, plus operational risk – and in operational risk we would put compliance, regulatory, actual security settlement, etc. – has to equal a dollar. It was said years ago, **'Liquidity is like water, you don't know how important it is until you don't have it.'**"

She continues, "We always viewed liquidity as being not only something that was embedded into the construction of the security, but we would look at it on different levels, asking: What is the liquidity of that security? What is the liquidity of that combination of securities? What is the liquidity of that overall portfolio? What is the liquidity of that marketplace? We would ask: What is the liquidity philosophy of the fund?"

"Our belief is that the customer is entitled to and wants their dollar to move in and out on a daily basis. So liquidity has to be an overall philosophy, and of course safety is a critical underlying element of liquidity. Right away we understood that safety, liquidity, and yield were not just portfolio management issues, they were a business model. In other words, a portfolio manager is not only required to know the market, but in the money fund business much more is required to execute your fiduciary responsibility," Kelley says.

"You need to have that understanding of knowing exactly your customer needs, what your customer base is, and what their liquidity needs are. Because if that changes on an overnight basis, then that changes my portfolio and changes the balance of the securities in my portfolio, etc."

"One of the things that the founders of AIM – **Ted Bauer, Bob Graham, and Gary Crum** – believed was that a

separation of credit and portfolio management was critical in risk management. That is a very unique model in terms of the business. In many areas in portfolio management, the credit people, the traders, the investor are all put together in one reporting structure, or are in many cases one person themselves. We have always felt that in the money fund business you have to have staff dedicated to specific



Karen Dunn Kelley

money market research.... There has to be a balance between those people having the independent discrete credit decision making responsibilities and those who are making the independent discrete investment decisions," she tells us.

MFI: Has Invesco Aim managed to escape the SIV turmoil unscathed?

Kelley says, "We have not been in the headlines. We have just not been impacted by it.... We don't buy an instrument unless its long-term tested in the market and market cycles. That means we usually don't participate in a new type of security until it gets into the marketplace for a significant amount of time and is well understood. The limited participation we've had in SIVs were not an issue to our portfolios in terms of the few names we bought, the credits we bought and where we bought them on the curve. **So we have absolutely had no issues in terms of the SIVs.**"

MFI: Has this been a significant threat to the money fund industry?

She says, **"I think that in every crisis there are silver linings.... I think that the answer is that the money market industry is alive and well.** It will prosper and it will grow and it will be a better industry for what has happened through this last year. We all

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evolve, we all grow, we all learn. But I am confident that this has just affirmed the business model and the management model that we put in place back in the 80's. For me personally, I take great pride to be affiliated with the team that has been here for so long. It's just a pleasure to see how well it can work."

Kelley says about the mutual fund business, "If you look at Invesco Aim and Invesco, we probably have a larger percentage of money market funds than the industry norm, even though we are an incredibly diversified business overall. We have structured the money funds and cash business as a discrete business that understands what it's doing and does not get confused about what it's doing. The majority of that business is wrapped around the '40 Act mutual fund business.... I believe [cash] is a tremendous and important aspect to any investor's portfolio."

"Money market funds have provided a great investment vehicle for the marketplace.... If you remember AIM grew up and its first successful product was a money fund product so it has always been involved in the money fund business. As we have grown into Amvescap and now Invesco, the company has embraced our business and now looks to globalize that across platforms. Because of the mutual fund model, with its board, with its regulatory environment, those kinds of things, is really a very efficient liquid and transparent way to invest money."

MFI: *What is the biggest challenge in overseeing U.S., European and international "money market funds"?*

Kelley says, "We are an industry and a world that has globalized, so the globalization [of products] is critical. One of the things that we say of all of our worldwide fixed income, and our money fund business in particular, is: 'We will provide the same standard of care in the any location across the globe.' That quality of product, that standard of care, will be the same regardless of where we are.... We have global customers. If you have a global customer and you have a

fiduciary responsibility to that global customer, you have to give them the same answer whether you're talking about sitting in the United States or in any other jurisdiction across the world."

"We've been in the global money fund business since the mid-'90s. **We actually brought the very first Dublin-domiciled Euro money fund....** So this is a business that we committed to many years ago. We are in that business, we believe in that business."

"One of the very first struggles that we had was, 'How are you going to do it?' The nomenclature of what is 'money markets' and what is 'cash' is not necessarily the same – I think we've really learned that over the last year.... We decided long ago that when we talk about money markets, it will be 2a-7 U.S.-centric money market funds. While we can be sensitive to local marketplaces and respect them, but from this franchise it will be 2a-7 centric. We've always been able hang our hat on the same standard of care," she tells us.

MFI: *What was the biggest challenge PMs faced when you were one vs. PMs today?*

Kelley replies, "I think the challenge is always to be the best fiduciary to your fund shareholders in any market environment and to create a risk management and communication process that gives comfort and [promotes] understanding. Clearly these markets have become more complicated over the years. But even back when I started explaining Euro CDs and tri-party repo, they seemed pretty complex at the time. It really makes you think about the evolution of this business. We've always said there is a difference between art and science, and there is a science to running these."

"I do think that when you look back over the money fund business — there were inverse floaters, there were funding agreements with 7-day puts, there were extendibles, there were SIVs, there was the Fed bringing interest rates to low levels, etc. — there have always been concerns about how will we deal with these kinds of things.... [T]here will always be new issues and securities that will need to be dealt with, and we will do so as we've done over the years."

MFI: *Are changes to Rule 2a-7 are coming?*

Kelley responds, "I certainly don't want to speak for the Commission. But one of the nice things is that they have always asked for input from the industry. We very much look forward to participate in that if that is the case."

MFI: *Tell us about Invesco AIM's model of distributing and its history.*

Kelley says, "The first customers were five regional banks that came together and started the very first fund at AIM, which was the **STIC (Short-Term Investment Company Portfolio)** in 1980. We just grew the business from there. Obviously the banking business changed and some of the regional banks then are major institutions now. So that has certainly changed. But we have always been a provider of product to major institutions, and we enjoy very good relationships with them. We do not look to compete with our customers. Over the years, we have created over 90 products which are denominated in 4 currencies, domiciled in 4 countries, and sold around the world. We're independent, and being independent is very important in this marketplace."

"We are and have always been a partner with our customers. Their success is our success, and that's the way we view it. With our overall business model of balancing safety, liquidity and yield, and what our customers wanted from us, we didn't need the spotlight. We are very comfortable with our relationships. We are in the service business.... With the recent crisis, we are happy not to be in the spotlight," she adds.

Finally, Kelley says, "I am confident in the model and our approach to the business. I am very honored to represent this business and the people in it. I think it's just been a strong business. Our senior management team has been together doing this for anywhere from 15 to 20 years. We really have created a philosophy and an environment that we think is the best for money market investing." ♦

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