



Good Day *at* BLACK

ROCK

By Hal Clifford

Jones alumnus **Keith Anderson** hates surprises.



Not long ago, Keith Anderson (MBA '83) visited the headquarters of one of his clients, an industrial company in the Midwest. Among his tasks, Anderson oversees the management of \$7 billion of that company's money. "You have always done what you have said you would do," the company's treasurer told Anderson. "There have been no surprises."



then you realize your

In the rarefied world of fixed income investment management, that is high praise indeed. Surprises are unwelcome, and delivering on promises requires the mastery of an often opaque, sometimes baroque financial world.

COMPANY BEST

Anderson, 43, is one of the founding partners of BlackRock Inc., a New York asset management firm he started in 1988 with seven partners. Today he is managing director and chief investment officer for fixed income, which comprises the bulk of the firm's assets under management: \$196 billion of the \$286 billion that BlackRock invests, mostly for institutional investors.

The company is highly respected by its competitors and its clients, says Jill Foote, a lecturer of management at the Jones School and a 13-year veteran of Goldman, Sachs. "BlackRock," she says, "is very sophisticated."

BlackRock gained that reputation by being true to its bedrock principles, one of which is to control risk. Anderson (who may have learned a little about risk during his monthly grad school poker games with Professor Ed Williams) is deeply methodical and puts enormous effort into quantitative analysis of holdings and markets. The firm's commitment to limiting risk is a conservative strategy that has been its attraction. In its short life BlackRock has come to manage funds for seven of the top 10 Fortune 500 companies.

"One of the things rich people want to do is stay rich," Anderson says, "and I think that's the case with institutions. They want to earn a little extra on their investments, but they don't want to do it with the risk of significant loss. We're not going to be the number one portfolio manager in the world, because we

don't take enough risk to do that, but we're going to consistently add value."

Anderson's recognition of his clients' desire to preserve capital and to grow it — and his ability to satisfy that desire consistently — has built his reputation as one of the most talented fixed income portfolio managers on Wall Street. His field isn't particularly sexy. You probably won't read about him on the front page of *People* magazine. But he and his company have delivered where it counts, generating average annual portfolio returns of 27 percent during the past five years.

Bonds go up when interest rates go down, and during the spring of 2003 some rates were at post-World War II lows. Now income managers like Anderson are asking themselves, how much steam does the bond market have left? Can rates go lower? Will the economy recover soon and with vigor, or later and slowly? Could the U.S. slip into a disastrous deflationary spiral of the sort that has gripped Japan?

Questions like those keep fixed income managers awake at night. A small change in interest rates leverages a big change — in the opposite direction — in the value of bonds. At BlackRock, Anderson's role is to see the big picture, to help his team of 30 portfolio managers develop their strategies within the macro world of, well, the world, and to execute them. Trades of hundreds of millions of dollars are common. The objective: outperform the benchmarks.

BOUND FOR BONDS

Not a game for the faint of heart, bond trading has its share of volatile personalities. Yet a conversation with Anderson can seem like a discussion with a respected academician. The talk is thoughtful, mellow, and easy-going. That may be because Anderson has the courage of his convictions; after all, he has been well rewarded for following them.

“If you’re confident in your abilities, biggest competition is in your own mind.”



Anderson chose Rice for his MBA partly because the degree was a good value, and he received a tuition half-scholarship. At the ceremony where Charlie Miller, who was head of the Financial Executives Institute (FEI) and CEO at Criterion Investment Management, awarded Anderson an FEI scholarship, Anderson asked Miller for a job trading stocks. After Anderson graduated, Miller told him to come by; he had a job open, but it was on the bond trading side of the business. That seemed better than nothing, so Anderson applied. When he got it, he asked Miller if he could move into stocks after a year. “We’ll see,” Miller replied.

The two men never discussed it again. Within three months, Anderson knew that bonds were his element. The world of bond trading may seem arcane to outsiders. To Anderson, who knew that a career on the Street was his calling even before he matriculated at Nichols College in Dudley, Mass., it was a snug fit. He had an ability to see the big picture, he had strong quantitative skills, and he saw opportunity in the field.

Aaron Halfacre (MBA ’00) is one of a half-dozen Jones alumni at BlackRock. He works with Anderson daily. Halfacre attributes his boss’s cool under pressure to his self-confidence. “If you’re confident in your abilities, then you realize your biggest competition is in your own mind,” he says.

“[Anderson] spends a lot of time thinking about things. He doesn’t get rushed.”

That calm, cerebral approach, Halfacre points out, doesn’t crumble under pressure. “It’s quite a challenge to see all the moving parts in the investment world,” he says, believing his boss sees that world in an abstract form. “He chooses to [make decisions] on the pure synthesis of investment ideas. He’s not doing it from a position of fear.”

Clients aren’t the only constituency that leans

on Anderson’s big-picture view of the market. The U.S. Treasury also asks for his advice, which he gladly contributes every quarter as a member of the Treasury Borrowing Advisory Committee. “We also meet with Alan Greenspan and the Federal Reserve Board Governors for two hours, where we discuss issues in the financial markets,” he says.

WATCHING THE BALL

During the past two decades, Anderson says, he has learned patience: “Wait for the pitch. Wait for the opportunities you think are better than others.” What that means on the trading floor is that sometimes he’ll park a large portion of a portfolio until he sees something worth swinging at. He may wait months for the right pitch.

The stock market is often driven by emotion. Bonds are drier by comparison, but their markets are frequently more complex. For instance, derivatives such as mortgage-backed securities are exponentially complicated by embedded options. Traders try to predict what will happen if, say, interest rates rise and the wave of refinancing dries up. If rates stay low and people continue to roll out of old loans, what will that mean? Once a portfolio manager gets an idea about the direction in which rates are headed, she is still not in the clear; just because the market went one way before, it doesn’t mean it will go that way again.

Perversely, just because a manager is right, it doesn’t mean she isn’t also wrong. “Keynes said markets can remain irrational longer than some people can remain solvent,” Anderson says wryly. In other words, sometimes even when you’re right, the best thing is to fold your hands and wait for a new deal — or a better pitch. Squeeze the emotion out of the game.

Such an environment can chew people up. Anderson is able to manage the stress in part by being right a lot of the time. “The people I’ve met in this business whom I



have the most respect for are going to be right only seven out of 10 times,” he says. For the other three, “you make the mistake, you learn from it, and you go on. And you diversify your bets.” He’s learned that the worst thing any manager can do, in any business, is make no decision at all.

As BlackRock has expanded (it has more than 900 employees), Anderson has learned to manage people, as well as money. He does so by combining the two jobs into a role he calls player coach. “He has the same walk as he talks,” says Halfacre. “He gets down on the floor, he gets involved, he treats everyone as a peer.”

To Anderson, it makes sense to work this way. “I’m out there managing money and managing people,” he explains. “I can empathize with a situation they might be struggling with, because I’ve been there as well.”

LEADING BY EXAMPLE

Empathy is important in Anderson’s volunteer work too. He serves as chairman of the board of Family Dynamics, a New York nonprofit that works to keep at-risk children out of foster care primarily by teaching parenting skills. Clients may be in jail, or may be violent, or may have suffered from violence. They may be poor and single. They seem to be about as far from Anderson’s world as one could imagine, but Anderson raises \$700,000 annually to go toward the group’s budget because he empathizes with the plight of these parents. “As a father of three, I’m very fortunate to have a lot of privileges and ability to care for my children,” he says. He and his wife, Peggy, have one daughter, Greta, 11, and two sons, Christian, 7, and Nikolas, 3. Anderson enjoys skiing, running, and tennis, but spending time with his children is his primary recreation.

With his firsthand experience of the stress of parenting, Anderson can extrapolate to the world of a parent who is about to lose a child to foster care. “I think a lot of people begin to ask what they’re going to do for society, and children have always been an issue closer to my heart than others,” he admits.

Anderson isn’t one of those executives who push their staff and colleagues to volunteer as he does. That’s not his style. He leads by example, both on the trading floor and in the nonprofit world. “I’m reluctant to ask people to get involved,” Anderson says of volunteerism. “I think everyone needs to make those decisions for themselves, in the right time in their lives and for the right causes.”

Anderson is empathetic toward students at Rice too. He has stayed in touch with alumni and professors since he graduated,

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and consistently offers his time, energy, and creative thought. During the past academic year, he worked with Dexter Senft (Rice ’74), now a managing director at Lehman Brothers, and with Associate Professor Barbara Ostdiek and Foote, to develop a simulated trading model for the bond market. The Fixed Income Portfolio Simulation (Fipsim) was launched in the 2002–03 academic year. Eleven Jones students built and managed simulated \$100 million portfolios for three months. At the end of that period, they defended their strategies and listened to feedback from BlackRock and Lehman professionals.

One of the students, Bob Iverson (MBA ’03), then landed a job with Anderson. He is the latest in a growing number of former Jones students employed at the investment house Anderson helped create. Currently, five full-time Rice alumni work at BlackRock, and two first-year students spent the summer of 2003 there. Evidently, the Jones School is getting a good yield on that half-scholarship it invested in Anderson. •