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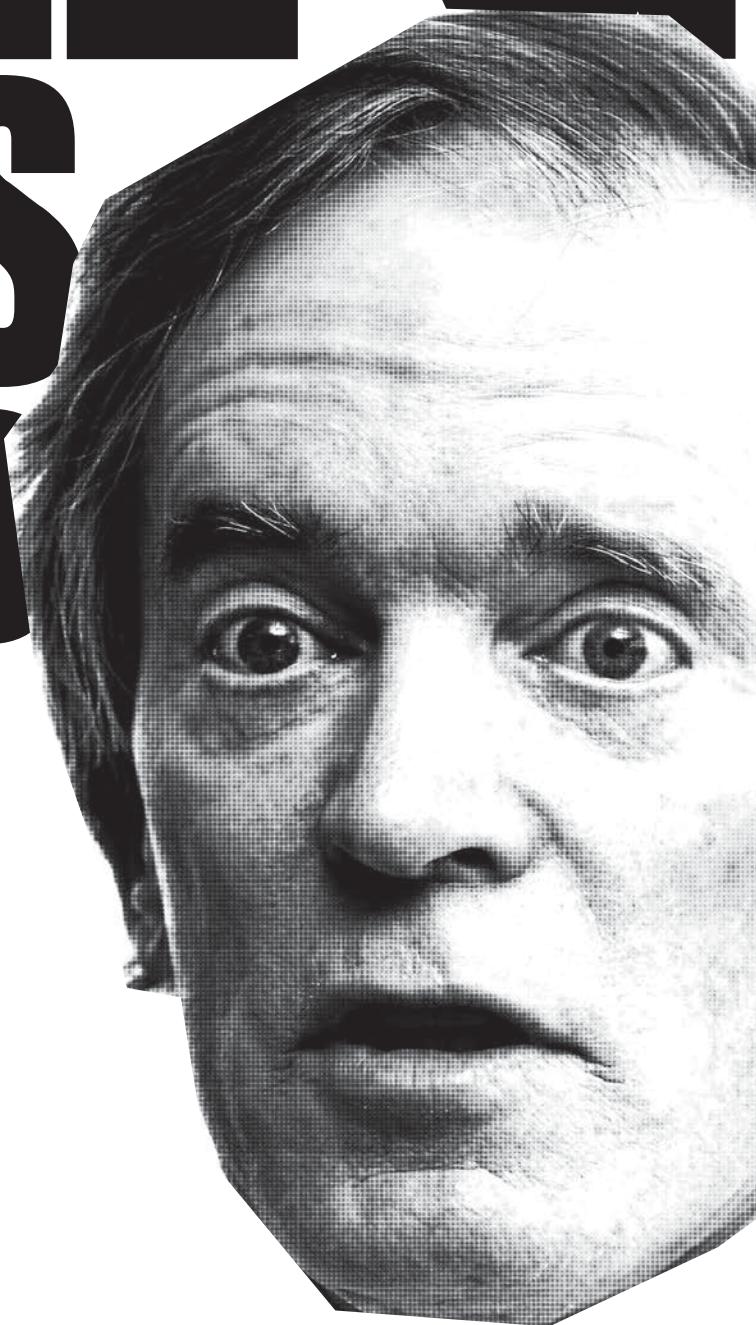
# Am I Really Such a Jerk?



**Bill Gross's case for Bill Gross**

# BILL G

# PICKS UP



# ROSS



# THE PIECES

**ABANDONED BY HIS HEIR  
APPARENT, BILL GROSS  
PONDERS PIMCO'S  
FUTURE AND WONDERS,  
AM I SUCH A JERK?**

**BY SHEELAH KOLHATKAR**

**T**here is no one who talks quite like Bill Gross, the co-founder of Pimco. He is perhaps the most influential financial manager of the past two decades, yet his stories involve an equal mix of whimsy and sheepishness, with fragments of Joni Mitchell songs, Howdy Doody vignettes, and references to classic American diner food offered in the sing-song voice of a Dr. Seuss character. But it's his tendency to speak about himself in the third person that takes the most getting used to. "Our Gross has not been a happy camper for the last two months," he says one morning in late March, sighing deeply. "But an unhappy captain still has to steer the ship through the rocks."

His long limbs are folded into a swivel chair inside Pimco's Newport Beach (Calif.) offices, from which he oversees one of the largest investment firms in the world, with nearly \$2 trillion belonging to pension funds, endowments, and pretty much anyone with a retirement account. He's in navy suit trousers and shirtsleeves, his eyes are misty blue, and he sports a thick head of silvery hair—a mane fit for Mufasa. "It's been like a near-death experience, an emotional blow," he continues. His nervous press handler sits a few chairs away, unsure what might come out of his boss's mouth next. "Whenever I read the newspaper," Gross says, "I say to myself, 'At least my wife loves me.'"

Gross's world was severely shaken in January, when Mohamed El-Erian, his deputy and chosen successor, announced that he was leaving the company. Gross was deeply, openly hurt: All of his carefully constructed plans for the future of Pimco—the company he started in 1971, his *baby*—were thrown into disarray; the day-to-day running of the firm, which El-Erian had done much of in his role as chief executive officer, was left with gaping holes; and Gross himself was forced onto an uncomfortable path of self-analysis after a series of articles portrayed him as a tyrant whose erratic behavior had driven El-Erian away. It was as if he became aware, for the first time, and at age 69, of the possibility that the qualities found in successful traders—a fixation on numbers and the markets, impatience, the desire to win no matter what—are not necessarily the same ones that make for a beloved boss. "Gross is an autocrat, a dictator," is how Gross describes the way he's been depicted, unfairly, he might add. He then swerves into the only known mashup of bond trading and Gertrude Stein: "Gross is a Gross is a Gross."

All this upheaval occurred amid a dif-

ficult market for bond investing, which is Gross's gift and obsession, and the thing for which Pimco is famous. With an interest rate increase expected in the near future—which could lower the value of existing bonds—and the stock market shooting up to new records every other day, many people have chosen to move their money out of bonds and into other things. In addition to serving as Pimco's chief investment officer, a title he previously shared with El-Erian, Gross manages the \$232 billion Total Return Fund, the largest bond fund in the world, which occupies much of his time during stock market hours. The fund has had some bumps, losing 1.9 percent in 2013, its first negative year since 1999, and over the last five years it has slipped to the middle of the rankings. Overall, investors withdrew more than \$40 billion from Total Return last year and another \$8 billion so far this year. Still, Pimco's—and Gross's—performance over a longer timeframe is one of the strongest in the industry. "Whatever the image that his latest personality tribulations have projected in the wake of El-Erian's departure," wrote Morningstar analyst Eric Jacobson in a March 18 report, "there remains good reason to believe he can persevere and his success persist."

According to Gross, El-Erian never fully explained his decision to leave, saying only: "I'm not the man to lead the company forward." During a period of weeks, as the news of his impending departure filtered through the company, this remained the only explanation he offered. Gross's reaction to it has been so visceral, and so personal, one can't help but imagine a father losing a son. Now, every time El-Erian's name comes up, Gross's voice becomes strained.

"I begged, as much as a man in my position can beg," Gross says. "I didn't get on my knees, but—'Don't leave. What are you doing? Don't!' And at some point it was, 'All right, already.'" El-Erian insisted that he didn't have another job lined up. He declined to comment for this article.

"It was bad for everybody," Gross says. "We said, 'What are we going to do now?' So, I started to think about the things that he did—I'm not hopping on a plane and going to Abu Dhabi and going to Munich and London, I'm too old for that stuff! Who's going to do that? You can't leave, you're the CEO who travels around the world and represents Pimco! So we're still getting used to that." He inhales. "Then the aftermath—I never expected *that*."

That was the press furor, which began as speculation about how Pimco would survive without El-Erian's steady presence and built to a long article—"the crusher,"

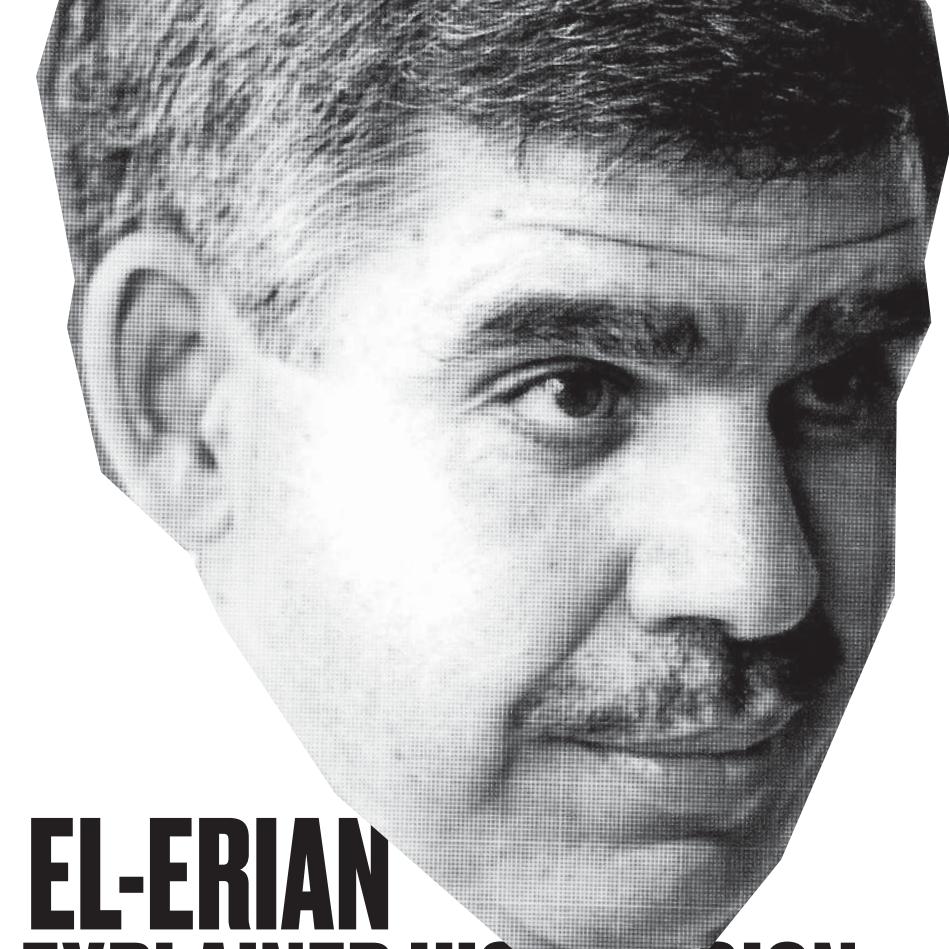
Gross says—in the Feb. 24 *Wall Street Journal* that suggested he and El-Erian had argued bitterly and others at Pimco were so intimidated by their patriarch that they were afraid to speak their minds. Suddenly one of the most unexciting companies in the world, a place populated by eggheads who begin their workdays in the middle of the night, was embroiled in public scandal. Reading about himself, Gross says he thought, "Is this the person I am and have been?"

"People have different impressions of themselves, and where reality lies is somewhere in between. And maybe I hadn't been forced to be in between. I always thought of myself as being part of a family and sharing and, yes, leading, but not forcing people to do anything. And so it was almost like a metaphysical few months where I was, like, is this me?" Gross says. "Sort of like the caterpillar in *Alice in Wonderland*—instead of who are you, who am I? That's been the most upsetting part. Are they right? Or am I right?"

Gross cherishes routine, and his has been much the same since he and two part-

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ners started Pimco as a unit of Pacific Mutual Life Insurance. Most days begin at 4:30 a.m., when he wakes up, makes coffee, feeds treats to his cats, and peeks at the market monitors in the library adjacent to his bedroom. He lives in a magnificent villa overlooking the ocean with his wife, Sue, and most mornings he kisses her goodbye without waking her up. He eats two scrambled eggs and prepares a to-go box of Special K with blueberries, which he consumes as he drives himself to work along the Pacific Coast Highway in a black Mercedes, controlling



# EL-ERIAN EXPLAINED HIS DECISION SAYING ONLY: HE MAN PANY FORWARD”

the steering wheel with his knees.

He collects a Starbucks black eye (“it’s got two shots of whatever they shoot it with”), makes his way to his U-shaped desk in the center of Pimco’s trading floor, and activates his seven monitors: 7- and 10-year Treasury futures, sovereign credit-default swap spreads, corporate bonds, stocks, cash Treasury bonds, and e-mail. A paper printout of the \$470 billion worth of portfolios Gross personally oversees sits on the sill behind his desk in a massive red binder, waiting to be thumbed through. By this time it’s around 5:30 a.m., an hour before the stock market opens, and Pimco’s offices are filling up. There’s a big empty space next to Gross’s spot on the trading floor where El-Erian’s desk used to

be—one gets the sense that people go out of their way to walk around it, as if avoiding the chalk outline of a murder victim on the sidewalk.

When you ask people who know Gross and the company he built to describe its atmosphere, “intense” comes up a lot. Sometimes the words used are much stronger. Virginie Maisonneuve, the firm’s new head of equities, calls it a “refreshingly direct” culture, one where people are busy and generally get straight to the point, skipping over the chitchat and niceties, something she says she appreciates. “Everything seems to suggest that Bill is extremely hard to work with—he’s an emotional guy, he’s very competitive and tough-minded,” says Bill Thompson, who was CEO of Pimco for 15 years and remains Gross’s close friend. “I think that’s all true. But anyone who’s any good as a trader in the markets has got to have some pretty unusual skills. There’s nothing new about that. That’s what it takes, and he’s got it big time.”

“In my personal experience, he’s exceedingly polite, he’s very humble, self-effacing,” adds Morningstar’s Jacobson. “I take all such things with a grain of salt. He’s widely known to have a temper.”

Gross knows that he’s stubborn and

not necessarily the most sociable creature, which is why at 9 a.m. every day he visits the gym at the Marriott hotel next door, where yoga has been replaced by a stress-relieving hour or so on a stationary bike. “I would admit I’m an introvert. I don’t know why introverts have to apologize,” he declares, banging the table. “But it is true—it’s hard for me to come in at 5:30 a.m. and be into the bond market. And I don’t go around enough and say, ‘Hi, Sally. Hi, Joe, how you doing?’ And that’s because that’s who I am. I wish I was different.”

It was just this sort of personality tic that El-Erian, 55, balanced out, serving as the soft power to Gross’s sometimes-brittle one. He was skilled at dealing with employees and clients, allowing Gross to focus on what he liked and was good at, trading and making money. El-Erian went on TV, seemingly daily, wrote newspaper editorials, and flew around the world, a roving ambassador with a trans-Atlantic accent. He was also one of the few people in the office with the stature to challenge Gross on matters ranging from investments to hiring to the future movement of interest rates. “He played a very valuable role as a counterweight to Bill himself, not only just in the Investment Committee but in the organization,” Jacobson says. “Because of his personality, Mohamed was able to do a lot of managing of people in ways that Bill didn’t want to, and to this day probably doesn’t care to.” By all accounts, it was, at least until a few months ago, a close relationship filled with trust.

El-Erian joined Pimco in 1999 after 15 years as an economist with the International Monetary Fund and a brief period at Salomon Brothers in London. Pimco recruited him to manage its emerging-markets portfolio, where he became known for selling off Pimco’s Argentinian bonds two years before the country defaulted. In 2006, El-Erian broke up with Gross for the first time when he left to take a job running Harvard’s \$29 billion endowment. Gross says he offered to make him the chief investment officer, Gross’s own title, to persuade him not to go, but El-Erian was committed.

He wasn’t happy at Harvard, though, and left after less than two years. El-Erian sidestepped the carnage of the financial crisis with fortuitous timing: In the fall of 2007, he suggested to Pimco CEO Thompson that he might like to return. Thompson and Gross were so excited to have him back, they granted his request to be CEO and anointed him co-chief investment officer alongside Gross. Thompson was thinking of retiring anyway to focus on his charitable activities and growing litter of grandkids, and the arrangement seemed

to resolve some prickly succession issues.

Things were good for a while. “Mohamed and I, we sort of settled in like a married couple,” Gross says. El-Erian kept even more extreme hours than Gross did, sleeping from 9 p.m. until 1 a.m., spending time on his op-eds and other prolific media output, and hitting the office around 4:30 or 5 a.m. He and Gross corresponded all day—mainly by e-mail, even though they sat next to each other, because Gross doesn’t like to be interrupted. When he wasn’t traveling, El-Erian would move at about 9 a.m. from the trading floor to his office in the executive wing to tackle his management duties. According to former colleagues, El-Erian regularly referred to a list his daughter had made of all the recitals and other milestones he’d missed.

“When clients would come in—and they are our most important consideration—they’d come to see the trading room, but it was obviously to see us,” Gross says. “We’d jointly greet clients, and—‘Mohamed, what do you think?’ ‘Bill what do you think?’—We would act as a team.” They also socialized, sometimes having dinner together in nearby Laguna Beach with their wives, who became friends.

As an economist with a Ph.D. from Oxford, El-Erian fit in with Pimco’s quasi-academic environment, in which those making investment decisions are expected to debate the Fed funds rate and defend their stock and bond positions at the daily Investment Committee meeting. This typically takes place from noon to 2 p.m., four days a week; Gross and El-Erian formerly presided from one end of a long conference table like star professors at a grad school seminar. The pair earned considerably more than actual academics, though: The *New York Times* says El-Erian made close to \$100 million in 2011, while Gross took home twice that, according to the *Wall Street Journal*.

It was at the noon meetings that the company’s concept of the “New Normal” economy, which posits a future of low-or-nonexistent economic growth for most of the world outside of Asia and Brazil, was born. “If you are a child of the bull market, it’s time to grow up and become a chastened adult,” Gross wrote in an investment letter in September 2009, announcing the new outlook. “It’s premature to award the 21st century to the Chinese as opposed to the United States, but if the last six months have been any example, China is sort of lookin’ like Muhammad Ali standing over Sonny Liston in 1964 yelling, ‘Get up, you big ugly bear!’” Gross and El-Erian often performed a routine for investors, with each one insisting that the other deserved credit

for the New Normal idea, which quickly became part of global policy discussions.

One influence El-Erian brought from Harvard was an interest in pushing the company into new areas—to transform it from a bond shop into a more well-rounded firm with funds specializing in stocks, commodities, and hedge fund-like options. “Mohamed would have had an intellectual phrase for it,” Gross says, “but instead of global bonds and burgers, we needed a Cheesecake Factory menu.” The company adopted a new marketing line: “Your Global Investment Authority.”

In the months before El-Erian revealed his plans to leave, he and Gross had entered a complicated process of figuring out which new global investment areas they should move into and finding or promoting people to take charge of them. The two men had philosophical differences about how aggressively to do this, however, according to Gross and others familiar with the firm. “It wasn’t all a smoothie, so to speak. There were some chunks of ice cream in the milkshake in terms of how to do it,” Gross says. “Mohamed, coming from the IMF, was always a big meeting guy, the more at the table the better. I was always the-smaller-the-better because that prevents the consensual mush.”

They went back and forth over the details and eventually agreed to create a layer of deputy chief investment officers to head up each new specialty, even as they disagreed about how many deputies there should be. It was during these months that tension between the two festered, with arguments becoming increasingly frequent. Gross at one point told El-Erian,

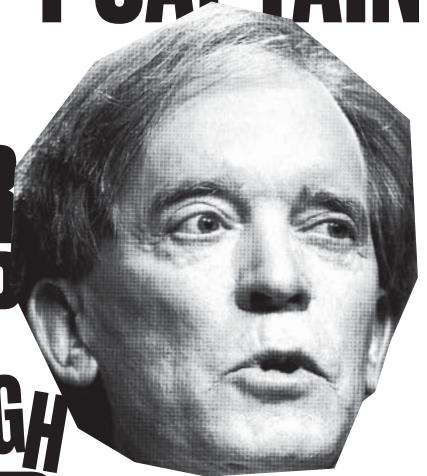
according to the *Wall Street Journal*, “I have a 41-year track record of investing excellence. What do you have?” Gross remembers saying this but says he can’t remember what precipitated it.

In a version of events that some cast as revisionist, Gross supporters suggest there was conflict over the performance of the Global Multi-Asset Fund, which was El-Erian’s responsibility. The fund was tiny compared with Pimco’s overall size, at below \$2 billion in assets, but it had a difficult year in 2013 in particular, losing 8 percent and looking even worse when compared with similar funds. At the same time, the firm’s move into stock investing was dragging and was less profitable than hoped for.

When El-Erian resigned, his plan to broaden the company had to be executed without him, just as it was getting started. Phones would soon ring, with investors, employees, and reporters all wanting to know what Pimco would do without Mohamed. In the back of everyone’s mind, of course, was the fact that Gross, hale and energetic as he is, will soon be 70. In spite of all the talented investors working there, Pimco still seemed overly dependent on its founder. With the departure of El-Erian and a handful of lower-profile executives in recent years, there were legitimate concerns about whether Gross was adequately planning ahead and could keep happy the few people he trusted enough to hang the company’s future on.

On March 27, Pimco’s Investment Committee gathered as usual in a spacious, windowed conference room. Gross slipped

**“AN UNHAPPY CAPTAIN  
STILL HAS  
TO STEER  
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THROUGH  
THE ROCKS”**



into a seat along one side of the table, where a handful of boyish hedge fund managers were discussing their strategies with several of the deputy chief investment officers. As the hedge fund guys spoke in their language of hedging and volatility and market wizardry, Gross rested his chin in his hand, scrunched up his face and watched carefully. Maisonneuve and Pimco's European expert, Andrew Balls, were on videoconference from London. Gross occasionally interjected, usually with a question about why they were doing a particular trade or what the Sharpe ratio was for a position, referring to a measure of risk-adjusted performance. Gross knows the world is changing, and the person he had been counting on to help him figure it out—El-Erian—is missing.

Scribbled on a whiteboard at one end of the room were some questions that must weigh on the mind of anyone whose fortune is tied to the American economy: “Can the US economy achieve 5-6% nominal GDP growth sustainably?” it read. “A) Yes, in the next 6-12 months. B) Yes, in the next 3-5 years. C) No, the New Normal GDP growth rate is 3.5%-4.5%. D) Double dip recession, debt deflation, financial crisis.” The meeting ended with a spirited debate about whether it was possible to know how soon interest rates would go up.

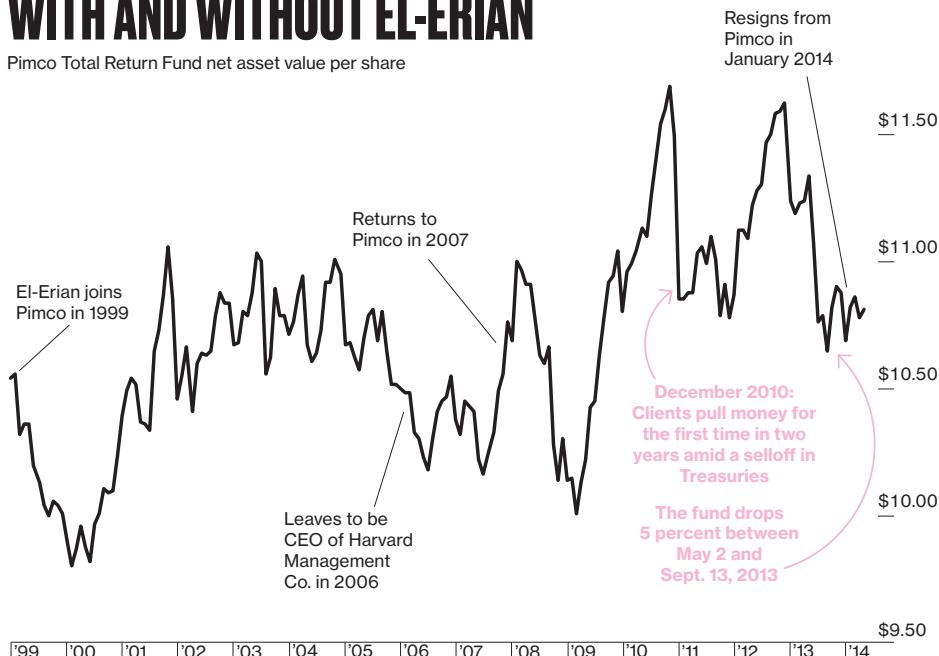
“You wouldn’t have seen that a few months ago,” Gross says afterward. “The willingness of everyone to jump in. This to me is, like, man, this is really good.” He nibbles at a turkey sandwich. “The challenge of this new structure is making sure that the risk vs. return is being adequately adjusted for, without being ‘the boss.’ But I ultimately am responsible.”

In the aftermath of El-Erian’s departure, Allianz, the German insurance company which has owned a majority of Pimco since 2000, felt that Pimco had to make its plans public quickly. Over the course of two to three days in January, Gross met with Pimco’s executive committee, which voted to elect a new CEO, Douglas Hodge, and president, Jay Jacobs. Plans were also made to name three deputy chief investment officers: Daniel Ivascyn, who made his name investing in mortgage bonds; Europe expert Balls; and Marc Seidner, a generalist who had most recently been running the equities business. Seidner in particular was set to play a significant role, taking on some of El-Erian’s noninvestment responsibilities. But hours before the new appointments were to be announced, along with the news of El-Erian’s departure, Seidner quit, too. Gross was stunned.

“Marc, you willingly participated in determining [Pimco’s] future while you

## WITH AND WITHOUT EL-ERIAN

Pimco Total Return Fund net asset value per share



DATA: COMPILED BY BLOOMBERG; MORNINGSTAR

knew you were leaving?” Gross said to him, according to Gross’s version of events.

“You asked me,” Seidner replied. He added that he had just made the decision.

Gross says he was enraged. “I might have used the F-word,” he adds. Seidner, who took a job at Grantham Mayo Van Otterloo in Boston, declined to comment.

Gross, meanwhile, had to scramble to replenish the deputy chief investment officer roster, which had just dropped from three to two. He met with Ivascyn and Balls and came up with a list of four others to add: Maisonneuve, the firm’s new equities chief; Mihir Worah, a physics Ph.D. who oversees commodities; Mark Kiesel, the head of Pimco’s corporate investments; and Scott Mather, a global bond specialist. They tinkered with the makeup of the Investment Committee, and Gross asked his new deputy CIOs to run the daily meetings, something he says he found exhausting.

After the announcements were made, including the news that El-Erian would retain a consulting role with Allianz, Pimco started an aggressive campaign to introduce its new star money managers, taking out newspaper ads and calling investors. At the same time, Gross says, he noticed that daily Investment Committee meetings became more relaxed, with more people freely voicing their opinions. He says now that, as “twin pillars,” he and El-Erian might have been too dominant, too intimidating.

Gross says there’s one caveat. “Consultants and clients ask this, and it’s a wise question. ‘So, that sounds good. You

have a happy family of deputies and whatever, but,’ they go, ‘will you have a happy client?’” Gross says. “And by that they mean, will it produce results? Because, I’m sure they want us to be happy and joyful and have good lives, but their primary concern is that they’re happy, which I think has always been our focus—you be happy first, and we’ll worry about our happiness second. It’s proved to be true with me: A happy wife is a happy life.”

It will likely take at least a couple of years to know. Gross is hopeful, but even he has his doubts. “It’s not always necessarily a productive process to have everyone leave the meeting with smiles on their faces. Maybe there should be a grain of sand in the oyster to produce the pearl, maybe there should be some conflict,” he says. “So that’s the challenge for me, as CIO. To recognize that some people thought I was autocratic, to recognize that. To recognize that this new atmosphere is fresh and exciting to me, as well as to them, but also...that the task of a CIO and a leader is like a captain on a ship: to combine all of the people on board into a cohesive unit that produces results.”

Gross served in the Navy during Vietnam, and he can’t help referring to what he learned there about making quick decisions and not bothering about whether others understand or agree. “We want to have a fighting team that sinks the other navy ships, as opposed to a fighting team that’s happy and has to man the lifeboats,” he says. “That’s the danger in this—it’s not all love and kisses and cheesecake dessert.” **B**