The United States Senate
Committee on Commerce, Science and Transportation
Subcommittee on Consumer Affairs, Foreign Commerce and Tourism

STATEMENT OF BRUCE W. CALVERT
Chairman and Chief Executive Officer, Alliance Capital Management
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Good morning Mr. Chairman and Members of the Subcommittee. My name is Bruce Calvert and I am the Chairman and Chief Executive Officer of the investment management firm Alliance Capital Management ("Alliance Capital"). I have been with the firm for nearly thirty years, during which time I served as Chief Investment Officer, Director of Equity Research and an active equity portfolio manager. I would like to thank the Subcommittee for the opportunity to appear before you to discuss Alliance Capital's investments in Enron Corporation ("Enron").

I am appearing with Alfred Harrison, a Vice Chairman of Alliance Capital and its most senior portfolio manager. Mr. Harrison is not only one of Alliance Capital's best managers, he is among the most highly regarded and well-respected managers in the entire industry. Over the last thirty years, he has developed one of the most successful investment track records, and also a well-deserved reputation for honesty and integrity. As many of you know, Mr. Harrison purchased Enron stock on behalf of a number of Alliance Capital's clients, and he can address some of the reasons why he made those investments, including his reliance on the statements made to him by Enron's management — statements that we now know to have been untrue.

Alliance Capital is one of the world's largest investment managers. Investment management and research is our only business. Alliance Capital provides a wide range of investment management services to a diverse group of investors worldwide, including U.S. pension plans, institutional investors and high-net-worth individuals. For example, Alliance Capital has been selected to manage money for 45 of the Fortune 100 companies, public retirement systems in forty-three of the fifty States, as well as by foundations, endowments, central banks and other global institutions. Alliance Capital is also one of the largest mutual fund sponsors, with a diverse family of globally distributed mutual fund portfolios. As of March 31, 2001, Alliance Capital's total assets under management were approximately $452 billion.

Significantly, Alliance Capital's revenue is directly tied to achieving positive performance for its clients. For its investment management services, Alliance Capital is paid advisory fees based on a percentage of the net assets it manages for each account. This fee structure is important in looking at Alliance Capital's incentives with respect to the investments it made in Enron on behalf of its clients. Because its investment management revenue is based on a percentage of assets under management, if Alliance Capital invests in a company whose stock drops in value, its advisory fees will drop proportionately.

You should also know that Alliance Capital offers its clients multiple products. Our clients have greatly varying needs, and in response to those needs, we offer a full range of investment disciplines. In broad terms, we offer growth equities, value equities and fixed income. Within these broad categories, we offer more specific services. In growth equity, we offer such products as large-cap growth, mid and small-cap growth, international growth and others. A product wheel identifying these many offerings is attached to my statement as Exhibit A.

Of the broad spectrum of investment disciplines Alliance Capital offers, I am going to talk today about our Large Capitalization Growth product. Alliance Capital's large cap growth team is headed by Alfred Harrison. The team consists of portfolio managers and investment professionals based in

Minneapolis, Chicago and Cleveland, all of whom are responsible for managing accounts pursuant to a large capitalization growth investment strategy. Collectively, these managers use their independent knowledge and experience to research potential investment candidates. These portfolio managers work as a team, and very often, but by no means always, invest in the same securities. Although there will typically be a broad degree of overlap in the holdings of the large cap growth portfolio managers, each portfolio manager does have a meaningful degree of individual discretion with respect to portfolio composition, and it would be unusual to see two portfolio managers have identical holdings in their portfolios.

It is critically important to understand that Alliance Capital is a research-driven organization. We have more than 320 analysts covering a broad universe of companies throughout the world organized into growth, value and fixed income teams. The number of analysts is important because it permits us to assign each analyst to a specific industry sector with a limited number of companies to follow so that the analysts can develop a depth of knowledge about the companies they follow. We often assign multiple analysts to cover a single company from different viewpoints, such as equity and fixed income. The sole purpose of these analysts is to assist in improving performance of client accounts. That is how we grow our revenues. We do not earn investment banking fees, nor do we engage in trading for our own account.

With that background, I would like to turn to Alliance Capital's investments in Enron. The decision to invest in Enron was based on extensive research by the Alliance Capital research and portfolio management team into Enron's business, its growth prospects, and the company's fundamentals in relation to the price of its shares. Without question, I believe that the judgment of

Alliance Capital's investment professionals with respect to Enron was entirely reasonable based on the information available to them at the time. We at Alliance Capital deeply regret having invested in Enron, but the root of the problem rests not with the judgment of our portfolio managers, but with Enron itself. That is, I believe the blame for the collapse of Enron and the resulting loss to countless investors lay with Enron's management and its auditors, who now appear to have been on a course to deliberately mislead investors, analysts, rating agencies and others.

I understand that Alliance Capital's research and portfolio management team had many meetings and conversations with Enron management to discuss Enron's business. Based on my years of experience, I believe that meetings with management are a very important part of the investment decision-making process. These meetings tend to be serious and substantive.

In the course of Alliance Capital's meetings with Enron, senior members of Enron management misrepresented numerous material facts. Mr. Harrison can elaborate on some of those misrepresentations, and I will leave that subject matter to him. But we do know, based at least in part on the testimony before this Subcommittee and other Senate Committees, that many others were similarly deceived by Enron and its management.

For example, a representative from Standard & Poor's testified that Enron failed to disclose that certain Enron insiders had a financial stake in Enron's off-balance-sheet partnerships and failed to disclose the nature of compensation that was paid to Enron's CFO in connection with these partnerships. Specifically, he testified that "far from providing anything like complete, timely and reliable information to Standard & Poor's, [Enron] committed multiple acts of deceit and fraud on Standard & Poor's, just as it did to many others with whom Enron dealt." Significantly, under federal securities laws, Standard & Poor's enjoyed preferred access to Enron's books, records and financial condition — access that investment advisors such as Alliance Capital do not enjoy. Despite this preferred access, Standard & Poor's was still unaware of Enron's fraud and continued to rate Enron's credit as investment grade until November 28, 2001, almost two weeks after Alliance Capital's last purchase of Enron stock.

Similarly, an analyst for Credit Suisse First Boston stated that the "inaccuracies and lack of information in Enron's financial reporting affected [his] conclusions and ratings on Enron." He explained that "[i]f the information a company provides is incomplete, incorrect or misleading, [his] analysis will be undermined." Obviously, we concur with this statement.

As I have said, it is plain that many institutions and private investors relied on the statements of Enron management and the company's audited financials. At this point, it is not clear which institutions were investing in Enron in the fourth quarter of 2001, but certainly many firms bought Enron stock during this time. Press reports have confirmed that a number of money managers invested in Enron in October and November on behalf of public pension funds. Moreover, there were many millions of shares being traded each day in October and November, and in some cases, hundreds of millions of shares. As Alliance Capital's purchases represented only a minor fraction of these trades, it is clear that many others were buying Enron in large quantities at what they believed to be bargain prices. And many investors who did not buy Enron during this time period still owned substantial quantities they previously purchased, but did not sell. It has been reported in the press that, excluding Florida, at least five state pension funds each lost more than $100 million in Enron stock. (Alliance Capital did not make the Enron investments for those funds.)

These large and widespread losses underscore one unfortunate fact — that as a general matter, if management of a corporation is bent on deceiving the investing public, and they are abetted by a major auditing firm, it is very difficult for investment professionals to discern the truth. This is the case even where those investment professionals perform extensive research into the company's business, as Alliance Capital did with Enron.

I would also like to take the opportunity to address one final issue relating to Frank Savage, a director of Alliance Capital Management Corporation, the general partner of Alliance Capital. Until the end of July of 2001, Mr. Savage was an employee of Alliance Capital, with responsibility for sales and marketing in the Middle East and Africa.

Mr. Savage also served on the board of directors of Enron beginning in mid-October 1999. Mr. Savage joined the Enron board at Enron's request, and his service was personal to him. Alliance Capital did not ask Mr. Savage to serve on the Enron board, nor did he do so as a representative of Alliance Capital. Alliance Capital permitted him to join the Enron board only after he had agreed in writing to comply with Alliance's policies governing employee service on unaffiliated boards, which among things required that he be "walled off" from any discussion with Alliance Capital personnel concerning investments in Enron. Mr. Savage re-certified his compliance with those policies annually thereafter. To be perfectly clear, Mr. Savage never participated directly or indirectly in any decisions by Alliance to buy, hold or sell Enron stock, and his membership on the Enron board had nothing to do with those investments.

Thank you, Mr. Chairman. I appreciate the opportunity to answer any questions the Subcommittee might have.