



MLFA partner and 'key' trainer

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The power of world's biggest investors becomes big

In the world of investment managers "scaling" is the magic word. Certain parties have become so big that they are a threat to the financial system, and politics (out of necessity) have no other choice than to take them into account.

The biggest investment manager in the world is BlackRock, with \$4.1 trillion of directly controlled assets. It has so much money to invest that it is the biggest shareholder in almost every other important listed company, such as Apple, Bank of America, Citigroup, Exxon, JPMorgan, Nestle and Royal Dutch Shell.

The Economist, of which – you already guessed - BlackRock is also the biggest shareholder (through a share in Pearson, the parent company of the business magazine) recently published an article about the dominance of the biggest investor in the world. The well-known business journal is of the opinion that the invested capital shouldn't be a problem.

<http://www.economist.com/news/leaders/21591174-25-years-blackrock-has-become-worlds-biggest-investor-its-dominance-problem>

I do not agree. When BlackRock changes the asset location beacons, for example more in shares and less in bonds, it will definitely influence the exchange rates, if only because others will follow the example. BlackRock is the world's biggest investor in shares. And for the world's biggest investor in bonds it is the same story. With its decisions about investments, Pimco can make or break certain sub-categories of bonds.

But BlackRock also owns another tool which is potentially dangerous. The Economist mentions it completely correctly: BlackRock's trading and risk management platform Aladdin, on which 7% of all world-wide investments (with a value of \$15 billion) is traded. Although BlackRock is not taking all decisions concerning the investments in the platform, they do oversee the biggest part of the financial world through a lens created by them, assumes The Economist.

In this article <http://www.economist.com/news/briefing/21591164-getting-15-trillion-assets-single-risk-management-system-huge-achievement> from The Economist, we can read that a report of the Office of Financial Research, a department of the American Treasury, contains a warning: some investment managers which also offer consultancy and courier services to other investment managers, create interconnections and dependencies which enhance their importance in the financial system. It is obvious that they are pointing at amongst others BlackRock and Alladin.

The term consultancy needs to be interpreted in the broad sense. Together with two other consultants and Pimco, BlackRock belongs to the parties which give advice about various financial crises in the world, for example about bailouts in the Eurozone. And according to EUobserver, they even get paid for it. The two consultants Alvarez and Marsal and Oliver Wyman would have invoiced over €80 million, together with BlackRock and Pimco, for their euro consultancy services. <http://euobserver.com/economic/122415>



But the biggest problem is that investment managers, especially the big ones like BlackRock and Pimco, which invest hundreds of millions of dollars and Euros - directly or indirectly - in government bonds of Euro countries, are not able to give objective independent advice and expertise. According to EUobserver, the mentioned parties are often hired without a public tender. On top of that, they normally hire subcontractors, including one or more of the "Big Four" accountancy companies - Deloitte, Ernst&Young, KPMG and PriceWaterhouseCoopers (PwC). The end result is a "golden circle" of large firms (banks, investment managers, consultants and the four big accountancy companies) with a de facto monopoly on handling EU bailouts.

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