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BlackRock, Inc. (BLK) CEO Laurence Fink on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-15-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $7.15 beats by $0.17 | Revenue of $3.69B (3.24% Y/Y) misses by $-1.71M

Earning Call Audio

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BlackRock, Inc. (NYSE:BLK) Q3 2019 Results Earnings Conference Call October 15, 2019 8:30 AM ET

Company Participants

Christopher Meade - Chief Legal Officer

Gary Shedlin - Chief Financial Officer

Laurence Fink - Chairman and Chief Executive Officer

Robert Kapito - President

Conference Call Participants

Craig Siegenthaler - Credit Suisse

Alexander Blostein - Goldman Sachs

Michael Carrier - Bank of America Merrill Lynch

William Katz - Citigroup

Michael Cyprys - Morgan Stanley

Patrick Davitt - Autonomous Research

Kenneth Worthington - JP Morgan

Operator

Good morning. My name is Jerome, and I will be your conference facilitator today. At this time, I would like to welcome everyone to the BlackRock Incorporated Third Quarter 2019 Earnings Teleconference.

Our host for today's call will be Chairman and Chief Executive Officer, Laurence D. Fink; Chief Financial Officer, Gary S. Shedlin; President, Robert S. Kapito; and General Counsel, Christopher J. Meade.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions].

Thank you. Mr. Meade, you may begin your conference.

Christopher Meade

Good morning, everyone. I am Chris Meade, the General Counsel of BlackRock.

Before we begin, I'd like to remind you that, during the course of this call, we may make a number of forward-looking statements. We call your attention to the fact that BlackRock's actual results may, of course, differ from these statements.

As you know, BlackRock has filed reports with the SEC, which lists some of the factors that may cause the results of BlackRock to differ materially from what we say today. BlackRock assumes no duty and does not undertake to update any forward-looking statements.

So, with that, I'll turn it over to Gary.

Gary Shedlin

Thanks, Chris. And good morning, everyone. It's my pleasure to present results for the third quarter of 2019. Before I turn it over to Larry to offer his comments, I'll review our financial performance and business results.

While our earnings release discloses both GAAP and as adjusted financial results, I will be focusing primarily on our as-adjusted results.

The third quarter was once again marked by significant market volatility associated with ongoing global trade tensions and geopolitical uncertainty around the world. While US equities finished the quarter up 1%, emerging market equities ended the quarter down 5% and the US dollar continued to appreciate against the euro and pound.

As we have seen in previous periods of market volatility, industry flows slowed in the quarter and clients continued to rebalance and derisk favoring fixed income and cash over equities.

Even within equities, investors demonstrated caution, shifting from momentum to value and favoring high dividend and low volatility funds.

BlackRock's business model, however, continues to work as well as it ever has. Over the last 12 months, we have generated approximately $350 billion or 5% total organic growth.

Our fully integrated One BlackRock business model was purposely built to bring together the entire firm to meet client needs in today's evolving ecosystem. Our globally diverse investment and technology platform, including our risk management and portfolio construction tools, is positioned to deliver not simply products, but comprehensive solutions to clients no matter the market environment.

We remain focused on thoughtfully investing in our business for the long-term and capturing growth in areas of highest client demand. These include iShares, especially higher growth and higher fee segments like factors, fixed income, sustainable, and megatrend ETFs, illiquid alternatives, and technology where we continue to evolve Aladdin's multi-asset analytics and portfolio construction capabilities.

These investments will position BlackRock to continue delivering higher and more consistent organic revenue growth across market cycles.

BlackRock generated $84 billion in total net inflows in the third quarter or 5% annualized organic asset growth, driven by continued momentum from our industry-leading fixed income and cash businesses.

Total annualized organic base fee growth of 3% reflected this mix shift toward lower fee products, but was also impacted by volatility driven outflows from higher fee market-driven iShares ETFs in August.

In particular, EEM, our flagship emerging markets ETF, saw $6 billion of outflows during the quarter.

Third quarter revenue of $3.7 billion increased 3% year-over-year and operating income of $1.5 billion rose by 7%. Earnings per share of $7.15 were down 5% compared to a year ago, however , as higher operating income and a lower diluted share count were offset by lower non-operating results and a higher effective tax rate in the current quarter.

Non-operating results reflected $7 million of net investment loss, primarily driven by the mark-to-market valuation of our minority stake in Envestnet. Recall that non-operating results in the year ago reflected a $40 million gain attributable to the disposition of our equity interest in DSP.

Non-operating results versus a year ago also reflected additional interest expense associated with BlackRock's mid-April debt issuance to partially finance the eFront acquisition.

Our as adjusted tax rate for the third quarter was approximately 23% compared to 16% a year ago, which reflected $90 million of discrete benefits. We estimate 23% is a reasonable projected tax run rate for the fourth quarter of 2019, though the actual effective tax rate may differ as a consequence of non-recurring or discrete items and issuance of additional guidance on tax legislation.

Third quarter base fees of $3 billion were up 3% year-over-year, primarily driven by organic growth, the positive impact of market beta and acquisitions, partially offset by the negative impacts of foreign exchange and strategic pricing investments and lower securities lending revenue.

Dollar appreciation over the last year had a negative 1% impact on our year-over-year base fee growth, while lower cash spreads led to a 6% year-over-year decline in securities lending revenue.

As previously mentioned, BlackRock's differentiated platform has generated total organic asset growth of almost $350 billion over the last 12 months. But divergent beta and mix change, items that we can't control, continue to impact our absolute level of base fee growth as compared to growth in average AUM.

While the S&P 500 was up 4% on average year-over-year, the BlackRock revenue weighted equity index was actually down 1% as markets linked to our higher fee equity products in Europe, Asia-Pacific, the emerging markets, and natural resources were flat to down 8%.

In addition, in the recent market environment, clients' preferences has favored lower risk assets and approximately 85% to our organic growth over the last year has been in fixed income and cash, which have relatively lower fees compared to other asset classes.

While base fees were up 3% sequentially, as a result of higher average AUM and the effect of one additional day in the quarter, on an equivalent day count basis, our overall fee rate declined 0.4 basis points versus the second quarter, reflecting this ongoing impact of mix shift and divergent beta.

Performance fees of $121 million decreased $30 million year-over-year, reflecting lower fees from alternative and long-only equity products. Sequentially, performance fees increase as a result of a single European hedge fund that locks annually in the third quarter and once again delivered strong performance over the last 12 months.

Quarterly, technology services revenue increased 30% year-over-year, reflecting the impact of the eFront acquisition and continued growth in Aladdin.

Demand remains strong for our full range of technology solutions and digital distribution tools.

Total expense was up 1% year-over-year, primarily driven by higher compensation expense and expense linked to the eFront acquisition, offset by lower G&A and direct fund expense.

G&A expense was down $29 million from a year ago, primarily due to lower transaction related and foreign-exchange remeasurement expense, partially offset by higher technology expense in the current quarter. Sequentially, G&A expense was down $86 million, primarily due to $59 million of product launch costs incurred in the second quarter and lower contingent consideration fair value adjustments and foreign-exchange remeasurement expense in the current quarter.

Consistent with prior years, our fourth-quarter G&A spend will be seasonally higher than the first three quarters of the year. At present, after adjusting for the acquisition of eFront, we anticipate that our full-year core G&A spend will be generally in line with the full-year guidance we provided in January.

As a reminder, core G&A expense excludes the impact of product launch costs, contingent consideration fair value adjustments, foreign-exchange remeasurement expense and transaction-related fees.

Direct fund expense was down 4% year-over-year and 5% sequentially, despite higher average AUM due to a benefit recognized in the current quarter. We would expect direct fund expense to return to a more normalized level in the fourth quarter.

Intangible amortization expense was up $15 million year-over-year, reflecting a full quarter of intangible asset amortization related to the eFront acquisition.

Our third quarter as adjusted operating margin of 46% was up 180 basis points from a year ago, reflecting significantly lower levels of non-core G&A expense in the current quarter.

Ongoing market volatility is contributing to increased beta divergence and client preference for fixed income and cash, leading to a more challenging industrywide revenue capture environment.

However, BlackRock's differentiated business model, financial position, and strategic alignment with high growth opportunities allows us to continue investing responsibly for the long-term.

Our capital management strategy is specifically designed to support this Invest First ideology and then return excess cash to shareholders through a combination of dividends and share repurchases.

During the first quarter, we completed our targeted level of share repurchases for 2019, repurchasing $1.6 billion worth of common shares and stated that we would be opportunistic with respect to repurchasing additional shares during the remainder of the year.

In line with that commitment, we repurchased an additional $100 million worth of common shares during the third quarter, taking advantage of attractive relative valuation opportunities that arose during August's market volatility.

Quarterly net inflows of $84 billion benefitted from continued strong demand for iShares, alternatives, fixed income and cash, reflecting BlackRock's unique ability to meet client needs in a variety of market environments.

iShares ETFs are unique in having a broadly diversified set of products that serve both long-term buy-and-hold wealth investors and institutional asset owners, as well as tactically-oriented institutional investors who value secondary market liquidity and the vibrant options ecosystem.

iShares net inflows of $42 billion, representing 8% annualized organic asset growth, reflected continued momentum in fixed income, factor and sustainable ETFs, each a market segment that has strong long-term growth potential and a higher fee relative to BlackRock's total fee rate.

Quarterly fixed income ETF flows of $24 billion was driven by clients' ongoing adoption of these products as a critical component of their portfolios.

Factor and sustainable ETFs generated $13 billion of quarterly flows as investor demand for these exposures, especially in the US and Europe, increased in the current environment.

BlackRock is the industry leader in all three of these fast-growing categories.

Retail net inflows of $7 billion reflected broad-based strength in active fixed income, partially offset by outflows from multi-asset world allocation products.

BlackRock's US wealth advisory franchise continues to gain share and has seen year-to-date organic growth of 8% in alpha funds and SMAs, while the industry as a whole remains flat.

Institutional and retail demand for alternatives continued, with $3.5 billion of net inflows into illiquid and liquid alternative strategies in the third quarter, driven by real estate, private credit, infrastructure and event-driven hedge funds.

In addition, we have approximately $22 billion of committed capital to deploy for institutional clients in a variety of alternative strategies, representing a significant source of future base and performance fees.

BlackRock's institutional franchise generated approximately $4 billion of net inflows in the quarter. Positive institutional index flows, driven by continued strength in LDI, more than offset approximately $4 billion of institutional active outflows in the quarter which were primarily due to several client-specific active fixed-income redemptions.

Net inflows into higher fee quantitative active equities and alternative strategies resulted in overall positive institutional organic base fee growth for the quarter.

Finally, BlackRock's cash management platform saw $32 billion of net inflows, a post-financial crisis record and crossed the $500 billion AUM threshold as we continue to leverage scale for clients and deliver innovative digital distribution and risk management solutions through cash matrix and Aladdin.

Cash is a strategic asset class and BlackRock's diverse cash management offering, including prime, ESG, government and munis, position us well to serve our clients' cash needs and continue to grow our market share.

In summary, our third quarter results once again demonstrate the resilience of our globally diversified investment and technology platform to drive consistent and differentiated organic growth in a variety of market environments.

Our focus remains on delivering the solutions our clients need to achieve their long-term investment objectives. We can't control market volatility or the impact it may have on our revenue capture quarter to quarter, but we can ensure that we meet the needs of our clients by generating exceptional risk-adjusted performance across all of our investment products.

We continue to leverage our competitive positioning and the stability of our financial model to invest responsibly in high-growth areas such as ETFs, alternatives and technology that are critically important to clients and shareholders alike.

With that, I'll turn it over to Larry.

Laurence Fink

Thanks, Gary. Good morning, everyone, and thank you for joining the call. More than ever before, clients are looking for asset manager partners who understand their whole portfolio and investment goals. They want partners who can provide insight in the context of a complex and changing investment landscape. And rather than just sell products, they're looking for asset managers who can deliver solutions that meet their financial objectives.

In the third quarter, a number of macroeconomic and geopolitical events drove global market volatility and heightened investor uncertainty. BlackRock's differentiated model continues to generate strong results.

By always looking ahead to recognizing unmet client needs, we have positioned BlackRock with the diversity, scale and global full portfolio perspective to help our clients navigate their investments in all market environments.

As Gary mentioned, we generated $84 billion of total net inflows, showing strength in many areas across the combined active and indexed platforms. We increased revenues by 3% and operating income by 7% year-over-year.

During the third quarter, geopolitics were once again a primary driver of markets, impacting investor sentiment. Global market index sold off, had a tumultuous August as the US treasury yield curve inverted and trade tensions escalated.

However, markets reversed course in September. And following a significant rotation out of momentum stocks and into value that had been building over the last year, US markets achieved their greatest year-to-date gains in more than two decades and averaged 3% higher sequentially in the third quarter.

Meanwhile, even with a partial recovery in September, emerging market indexes averaged 3% lower for the quarter, a 6% divergence in these markets.

Fixed income, the low and negative interest rate environment persists. In an effort to extend the economic expansion, we're seeing unprecedented synchronized signs of intervention by central banks globally.

For the first time since the financial market, the Fed announced that they would add liquidity into the system after a brief spike in short-term repo rates signaled liquidity constraints, or maybe supply issues.

Meanwhile, in Europe, the ECB announced they would restart their asset purchase program to support their inflation targets.

The simultaneous rise in historical safe assets alongside riskier equities in the third quarter highlights investors' uncertainty about the global economy, the state of trade negotiations and the Federal Reserve's path of monitoring easing.

In this unprecedented environment and faster than any time since the financial crisis, clients are transforming what they demand from asset managers. They demand transparency, value, convenience, higher returns and better outcomes. They want a global perspective, an insight, from partners they trust.

BlackRock is uniquely positioned to meet those client needs. Our combination of active, index, factors, cash and alternatives, powered by our industry-leading portfolio construction and risk management technology, enables us to take a whole portfolio approach and is resonating with clients more than ever before.

The value of our differentiating model we have built is increasing as we make the most of BlackRock's capabilities, from the asset management to risk analytics to ESG solutions through partnerships and strategic advice.

One recent example of how we bring the best of BlackRock together for clients is our strategic partnership with Rabobank in the Netherlands. We are providing an innovative solution consisting of a custom set of funds that combine technology, data and investment and risk management tools through Aladdin that benefits the needs of Rabobank's clients for transparency and value.

We also recently published our eighth global insurance report which includes BlackRock's analysis of key findings from our survey of 360 insurance companies in 25 countries, representing more than $16 trillion in assets.

Insurers are increasingly focused on building portfolio resilience through diversification and better portfolio construction. They want to optimize fixed income, integrate private markets and increase sustainable investing, themes which we see more broadly across our client base.

BlackRock has the insights, the technology, the whole portfolio context to help our insurance clients understand practical actions that they could take to address their needs, and we have the breadth in solutions that they are seeking.

Our ability to be a valued partner is the direct result of the investments we have made to stay ahead of our clients' needs and innovative across our platform. Our innovations across illiquid alternatives, fixed income ETFs, factors. sustainable investments, cash and much more are driving our inflows.

Clients have entrusted us to manage $350 billion of new assets over the last 12 months alone, representing 5% organic growth rates. And as clients re-risk out of cash into fixed income, BlackRock will participate and benefit by virtue of our solution-based approach.

We have even more opportunity for BlackRock going forward and continue to invest in the highest growth areas for the future – iShares, illiquid alternatives and technology.

In iShares, we've doubled our asses from $1 trillion five years ago to more than $2 trillion today. We believe the ETF industry itself can double over the next five years and we're investing to support the growth of the industry and maintain BlackRock's leadership.

The movement by independent financial advisors and direct platforms in the US to eliminate transaction costs is increasing accessibility to investing for more and more people and we believe will accelerate ETF adoption.

The elimination of barriers to investing is a good thing. It democratizes access and enables more people to save, invest and reach their long-term financial objectives.

With the commission free moves, we now have access to more clients than ever before and we remain confident that iShare value proposition will continue to drive growth and BlackRock iShares market leadership.

iShares generated $42 billion of net inflows in the quarter, led by strong growth in fixed income, factors, core and European ETFs. We once again captured the number one market share in ETF flows globally, in Europe in the high-growth categories including fixed income, factors, sustainable ETFs.

iShares is not just one, but rather several product segments – core, fixed income, factors, sustainable, megatrends and precision ETFs, each with a range of different ways that different clients are using them.

For these segments, fixed income, factors, sustainable and megatrends, represent more than $600 billion of AUM today and have generated more than 20% annual organic asset growth on average over the last five years and have a higher average fee rate than BlackRock's overall business.

Demand remains exceptionally strong for fixed-income ETFs where iShares is the market leader. We captured $24 billion of net inflows in the quarter and a record $87 billion already year-to-date as client demand for fixed-income exposures accelerated, including from other asset managers.

Growth is coming from the adoption of ETFs as replacement for individual bonds and individual sources of liquidity and transparency during times of market stress.

Fixed-income ETFs have also been utilized by more and more fixed income investors for active purposes, using ETFs as a mechanism to get active returns. We are also increasingly seeing clients adapt shorter duration fixed-income ETFs as a substitute for cash in their portfolios. And now with commission free, this proposition is even stronger for cash substitutes. Fixed income ETFs are a technology that is accelerating and will definitely modernize the global bond market.

We are the industry leader in factors and our factor iShares have more than tripled in assets over the last five years from $44 billion to $161 billion in AUM today, including over a 25% annual organic growth rate on average.

Year-to-date, we captured the number one share of factor flows, surpassing nine ETF factor players as well. We see increased adoption in model portfolios and from RIAs as wealth clients look for a high-value factor exposure that support resilience and defensive positioning in their portfolios.

Demand is also coming from European clients looking for greater value than traditional active and better returns than traditional indexes.

Sustainable ETFs are a strategic segment that while relatively small today at $40 billion in industry AUM we believe can grow to $400 billion over the next decade as more clients look for strategies that target a measurable ESG impact in financial returns.

iShares sustainable ETFs represent $16 billion in assets, up from $1 billion five years ago. We have generated more inflows in sustainable ETFs than any other manager this year and have four out of the industry's five largest sustainable ETFs.

Client demand for sustainable investment solutions extends way beyond our iShares business.

Shifts in demographic and investment conviction are driving increased interest in sustainable investing globally and these forces are likely to accelerate.

BlackRock is committed to providing clients with choice across the investment spectrum that aligns with their investment goals.

We currently manage over $65 billion in dedicated sustainable investment funds, an additional $500 billion of accounts that apply exclusionary screens. We are integrating ESG data, ESG tools, ESG research insights to support our investment teams in every asset class, so all teams, active and passive, can incorporate material ESG data into their process with the idea of enhancing risk-adjusted returns.

I've spoken in the past about using technology to drive more BlackRock's revenues. Technology is a priority and a strategic differentiator for BlackRock. In addition to generating direct technology revenues, we're increasingly using technology to enhance our results in our asset management business.

For example, we're transforming our cash management business by integrating technology into our business model. We are delivering cash matrix technology to help clients streamline their operations and quickly and efficiently make more informed decisions.

Five years ago, cash management was $281 billion business. Through technology, organic growth and acquisition, we crossed $500 billion in AUM July. This represents over a 200 basis point global market share increase from five years ago and is an important milestone as scale is a key value proposition for clients in the asset class. Increasingly more and more BlackRock holistic client relations are starting through a cash management assignment.

Illiquid alternatives is another area where we're innovating to scale our business, expand our platform and integrate technology into a business model and momentum is increasing.

Including net inflows and commitments, we raised over $5 billion in illiquid alternatives in the third quarter, led by real assets in private credit.

We have raised a total of $46 billion in the last three years and nearly doubled our illiquid alternative platform to $92 billion in AUM and dry powder today. Demand for private markets remain strong as clients seek longer duration, higher returns and eFront further strengthens our illiquid alternatives and will support growth over time.

Our direct technology service revenues grew 30% year-over-year as more clients are looking for holistic and flexible technology solutions to operate their businesses more effectively and more efficiently.

For institutions, Aladdin is an enterprise investment and risk management systems that power the entire investment process on one single platform.

What truly differentiates BlackRock is its user/provider business model, its ability to provide integrated, multi-asset capabilities throughout the entire investment process, from sophisticated portfolio analytics and construction to trade execution to compliance and to investment operations.

The combination of eFront with Aladdin further reinforces Aladdin's value proposition as the most comprehensive investment operating system in the world.

Aladdin is also a powerful solution for customers and custodians who service their assets through Aladdin providers, as well for wealth managers who need to offer transparency and convenience to their own clients through Aladdin Wealth.

We now have 13 clients using Aladdin Wealth and expect to further growth to come from our expansion into different wealth segments and markets around the world. Aladdin is increasingly the language of portfolio construction for wealth managers.

Understanding and managing risk is critical to helping clients achieve the financial outcomes consistent with the intended objectives and risk preferences.

We're also seeing more and more clients use Aladdin Wealth as a business enabler, to grow their business in a differentiated way in the markets, using it to have client-centric, portfolio-based conversations that enhance their dialogue with their clients.

We're strong momentum going forward as industry consolidation, shifting product usage and regulations are increasing the need for a more holistic and flexible, technology-driven solution at both institutions and wealth managers.

BlackRock is well positioned to capitalize on these trends and is committed to enhancing our technology capabilities to continue to meet our clients' needs and their future needs.

In a world where the merits of globalization are being challenged by so many, BlackRock has and will continue to be a global company. We have a global footprint with employees in over 30 countries, with clients in more than 100 countries. And we are making a global impact, working to improve issues such as retirement in every country where we operate.

This focus on using our expertise in high-growth regions around the world positions BlackRock to both drive increased flows and fulfill BlackRock's purpose of helping more and more people experience financial well-being.

We recently crossed the 20th anniversary of BlackRock's IPO. On October 1, 1999, BlackRock listed on the New York Stock Exchange for $14 a share. Today, we're trading around $434 per share, representing a 19% compounded annual growth rate for our shareholders.

As market changes and as our clients expect more from us, we stay true to the innovative instincts that has defined BlackRock and enabled the strong results we are seeing today.

We at BlackRock will continue to evolve, we will continue to innovate, we will continue to stay in front of our clients to meet our clients' needs, while reinforcing our key strategic differentiators.

Our global scale and reach, a culture centered on client needs, a global voice heard around the world and a One BlackRock approach to delivering for clients.

With that, I'll open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from Craig Siegenthaler with Credit Suisse. You may ask your question.

Laurence Fink

Good morning, Craig.

Craig Siegenthaler

Hey. Good morning, Larry. I wanted to get your perspective on how the commission cuts over the last two weeks at the e-brokers will impact both distribution and also the overall competitive dynamics on these US e-broker platforms. And also, any impact as we think about either flows or the underlying economics still?

Laurence Fink

I'm going to let Rob Kapito answer that question, but if you could see my face, I'm smiling at the opportunities.

Robert Kapito

So, Craig, the commission-free trends have been very positive for iShares. And as Larry mentioned in his opening remarks, the elimination of barriers to investing simply means that more and more investors are going to have the ability to use ETFs. And as the ETF market leader, this has got to be good for BlackRock. More clients than ever before have access to the value and quality of iShares funds to hopefully achieve their investment goals.

So, commission-free trading is actually accelerating ETF flows in the two fastest growing US wealth channels. One is the US RIA and that represents a $5 trillion market that has grown at a 10% compound annual growth rate. The other area is the US direct investors, and they represent $7.5 trillion in market that has grown at a 10% compound annual growth rate.

So, our share on the e-broker platform has expanded since the commission-free trends began, and these segments are becoming a larger growth engine for BlackRock overall.

So, we're confident this will increase the number of investors using iShares as an essential part of their portfolios, and with our focus on quality exposures at very good value, we think that we will continue to lead the industry.

As you know, global iShares generated $42 billion of net inflows, representing 8% annualized organic asset growth, and these flows were driven by growth in fixed income, core, factor, and sustainable ETFs.

So, just to reiterate, because this is important, fixed income ETFs are a technology, and they're accelerating the modernization of bond markets and had a very good quarter with $24 billion of net inflows led by treasuries, mortgage-backed and high-yield corporate bond funds. We are also seeing clients increasingly adapting shorter duration fixed income ETFs as a substitute for cash in their portfolios.

On the factor ETFs, we saw $9 billion of net inflows as investors sought resilience in their portfolios and defensive positioning; for example, in our min vol factor ETF.

The sustainable ETFs saw $4 billion of net inflows as we see increasing client demand for achieving sustainable outcomes alongside financial returns. And as Larry mentioned, iShares captured the number one market share of global, European, core, fixed income, factor, and sustainable ETF flows in the third quarter.

So, this is just another way that we think is going to increase interest and demand for ETFs for our investors.

Laurence Fink

I'd just add one more thing. Rob said it and I said I think in my prepared talk. Having commission free for low duration makes ETFs a great alternative to bank deposits, a really good solution towards money market funds. And so, a commission free in the fixed-income realm – cash and fixed income is a real opener for so many more participants.

Operator

Your question comes from Alex Blostein with Goldman Sachs. You may ask your question.

Laurence Fink

Hi, Alex.

Alexander Blostein

Hey, Larry. Good morning, everyone. Just building on the last question, so commission-free ETF trading accelerating growth into ETFs makes total sense. I was hoping that you guys could comment on some of the economics that could come out of this. In particular, I was curious how the payment and potential savings really from reinvestments maybe of some of the payments that you guys are currently making to some of the platforms could come through, whether or not that's a margin improvement dynamic for BlackRock or is that an area of additional spending for other platforms or lower management fees on some of the ETFs? So, maybe you could help us kind of flesh out the economics a little bit better. Thanks.

Laurence Fink

So, let me just say one thing. Our relationship with Fidelity, as I kind of alluded to it, is as strong as ever. Our relationship is way beyond ETFs. It's about education. It's about working with their platform. And so, our relationship with Fidelity is unchanged, if that's what you're trying to allude to, related to what we pay them and other things. We have a great relation with Fidelity. We have great opportunities looking forward with them too. And I'll let Rob – go ahead.

Robert Kapito

And we have other distribution agreements. They're not impacted by this. It really just simply gives us more access, and since we are already a very known commodity to these distribution groups, this really only enhances it, and it really is not impacting the fees that we are charging on our ETFs . This is a way for our clients to get in commission free to trade, which is very important as clients have moved more away from individual stockpicking to a portfolio construction and are using ETFs as a major tool in that portfolio construction. So, getting into it is where they're saving the money. It's not really impacting our fees. Maybe Gary wants to add to that.

Gary Shedlin

I think you guys both got it. I don't think there's any question this is a great outcome for well-branded, scaled ETF providers. And we're going to continue to prosecute our strategy as we ever have. But I don't see that there's any impact on our pricing structure as it relates to ETFs from this move.

Operator

Your next question comes from the line of Mike Carrier with Bank of America. You may ask your question.

Laurence Fink

Good morning, Michael.

Michael Carrier

Good morning, Larry. Just given the strength in alternative flows this quarter, I wanted to get your view on the outlook and how you're positioned to grow, given rising allocations in the private markets. Maybe some of the near-term challenges we're seeing with private companies looking to go public.

Laurence Fink

Well, I think on one segment, private companies are having problems. And that's more growth-oriented, technology companies that are having problems going public. I don't see the overall market is in much trouble.

But related to BlackRock and alternatives, as we said for a number of years now, alternatives is a strategic priority for BlackRock. We're now up to $126 billion in liquid and illiquid strategies. We manage now $71 billion of illiquid AUM across infrastructure, real estate, private credit and now LTPC. We raised $5 billion the last quarter between commitments and wins. And we raised over the last three years $46 billion, doubling our AUM in the category.

I also believe, and this is one of the fundamental reasons why we think technology connects and helps us in flows, our acquisition in eFront, obviously, it's going to make the Aladdin system even more robust which I talked about, but eFront also gives us a greater ability to penetrate in terms of illiquid alternative sales. And so, we truly believe there is a deeper connection between what we're doing in technology and then the illiquid alternatives.

And this is consistent with all our – with the entire BlackRock platform. We have consistently differentiated ourselves in the fixed-income universe for now 30-odd years by having risk technology. After the BGI transaction, we added all of the sleeves of technology for equities and that became a bigger component of what we're doing. And now, through the eFront acquisition. It really does help us having a unique perspective and a unique ability to integrate what we're trying to do in terms of illiquid alternatives.

So, you're correct in saying, we're seeing more and more utilization of alternatives as an asset category. We know many clients are moving from 10% to 12%. Some clients are moving to 12% to 18% in terms of allocation. But there are also areas within the illiquid area that, in some markets, the valuations are fully priced too. And so, I don't think it's a perfect scenario.

The area we believe and where we have a unique emphasis on – where I believe, over the next 5 to 10 years, we're going to see an expansion, that will be in the infrastructure side. We believe infrastructure is going to be a bigger and bigger component of both public and private, like we did in Abu Dhabi, but we see many, many opportunities like we did in Mexico a few years back. So, we believe that there's going to be – firstly, there's great client demand for the product and the key is finding the strong supply. And I do believe more and more entities, more and more players are looking to do this.

I would also just say, we are one of the leaders in renewable energy. The cost now to put up solar fields, it produces electricity at or cheaper than natural gas. As a leader in renewable energy, this is going to be a major component of our future. Part of our flows was in a renewable energy fund. We just raised another big block. We're about to close the final raise of that fund.

So, overall, it's a major component of how we're evolving our organization and we're very excited about the dialogues we're having with more clients.

Operator

Your next question comes from Bill Katz with Citi. You may ask your question.

Laurence Fink

Hey, Bill.

William Katz

Good morning, everybody. Thank you for taking the questions. So, maybe a two-part question if I could. I guess, the first part of it is, as you think about your spending outlook into the new year, you highlighted three different areas – alternatives, technology and passive – where are you in the respective growth cycles as you sort of think about year-on-year increase?

And then, secondly, Gary, you mentioned that you step into the stock in August when you thought about relative value. Can you sort of clarify, when you say relative value, how are you thinking about that, what would be the multiples to the group to the market? I'm sort of curious of your – at present to which you're seeing that opportunity.

Laurence Fink

Sure, Bill. So, in terms of your spending question, was it a question as we're thinking about the New Year, is that how you're thinking about it?

Christopher Meade

He can't answer that.

Gary Shedlin

Okay. Well, I'll just assume it's a question. So, yeah. I think – look, we're, obviously, very mindful that we're in a market environment that makes predicting beta or counting on beta in a lower return world, given where volatility is, getting where divergent beta is, where fixed income markets are more complicated. So, we are obviously more aware than ever that we need to basically continue to invest in our major engines of growth. We highlighted alternatives. We highlighted technology. We highlighted ETFs. There's obviously much more beyond that, but those are the three that are incredibly critical priorities for the year and we are going to seek to get as much investment dollars into those businesses as we can going forward, which means, given our commitment to continue to be margin aware that we're going to reallocate as aggressively as we can to make sure that we are being mindful of both margin and long-term value creation for our shareholders.

In terms of the second question, which was – what was the second part of the question? Oh, the capital return. Thank you. In terms of capital return, I think you mentioned a number of them. We look at value relative to our peers. We look at value relative to the market overall. We look at value relative to what we believe our growth prospects are and we're constantly trying to basically see where we think it makes sense just given some of the – the market goes down and sell asset manager mentality comes from, where were we think there's some of valuation opportunities that make sense for our shareholders going forward. So, we look at all three investments. Absolutely relative.

Operator

Your next question comes from Michael Cyprys with Morgan Stanley. You may ask your question.

Laurence Fink

Hi, Mike.

Michael Cyprys

Hey. Good morning. Hey, thanks for taking the question. Just wanted to dig in a little bit more on low and negative rates. With rates so low and going lower across the world and negative rates in some parts, I guess as we look out over the next couple of years, how do you see that impacting the asset management industry just in terms of how you're managing the business, how you structure portfolios, the impact this could have to fees and asset allocations as well.

And just maybe a second part related to the asset allocation, we've seen a lot of flows into fixed income, but with rates so low, at what point do you see an influx of flows into equities, just given return rates are so low? What's the catalyst for equity inflows?

Laurence Fink

Let me just start off. We built the model of BlackRock really to be able to work with our clients in risk-on, risk-off environments, low vol, high vol, and the key is working on their long-term solutions. And all the ins and outs of markets, let's be clear, it's on the margin for most investors. It's not big giant changes. They may reallocate 4%, 5%, 6% of their portfolio and navigate around that. At the same time, much of the flows, maybe they're outsourcing more and more of their portfolio. They may be looking for – they may be consolidating managers.

But I'd say the most important thing that – how we've designed the organization is to make sure that we have the diversity in the platform, so we could be the best we can as a solution provider to our clients.

The other thing that we're try to drive is making sure that not one asset class drives our business.

And so, in answering your question about low or negative interest rates, it appears they're going to be with us longer than I think we all expected at the beginning of the year. And with that, I think client trends have been to move still to de-risking until they have some sign as to where they should navigate.

At the same time, clients on the margin are still as a de-risk in some categories. They're looking to put some of that money to work in higher risk or less liquid strategies like illiquid alternatives to try to get as much return as they possibly can.

As I said in an earlier conversation that there are some areas that look rich to us already in the private area, but there are a lot of opportunities in other areas.

I don't see persistence in low rates being a major cause for clients looking for lower fees. In fact, 2019, I would not qualify as a year of massive fee pressure. But when clients are looking to do big, giant restructurings or are looking to do major reallocation out of many managers into one manager, they're certainly looking for fee reductions if you're able to have a majority of those assets. So, you offer that type of scale and it doesn't really impact our margins as much.

But I don't know that it really matters for us where are clients going, when do they pivot back into equities. We're not seeing any indication at the moment that clients are asking more and more questions about when do they jump back in. As I said, I think we get – clients are heavily in equities now. What we see every quarter is marginal changes in their portfolio allocation. It's not dramatic changes.

Rob, did you want to add…?

Robert Kapito

Yeah, I was going to say, and dovetailing a report that you did, Michael, that we read that was very good, our survey shows something very similar that clients are not adding into their equity portfolios. They're using that portion to go into alternatives. And it's getting back to the original barbell trade where they're using short-term fixed income, so that they're keeping the risk the same and then allocating more to alternatives.

Actually, I think this is a benefit for us for two reasons. One, in portfolio construction, they need to use the cheapest products and we are offering the passive and the ETFs which are growing in that way. Two, we are also offering the alternatives. But, three, more importantly, is sourcing assets. And it's become very difficult for clients to source assets by themselves and, therefore, they're putting out more money for people that can actually find these particular assets, which dovetails into what Larry is saying, into new asset classes being real assets like infrastructure and others which they would have a very difficult time sourcing themselves.

So, it's actually fitting in to the strategy that we have, both having the passive and lower-priced product and now offering the higher-priced source assets, whether it be private credit which you saw grew dramatically last quarter here and the real asset and other alternatives which we agree with you are going to continue to grow.

Operator

Your next question comes from Patrick Davitt with Autonomous Research. You may ask your question.

Laurence Fink

Good morning, Patrick.

Patrick Davitt

Hey. Good morning, guys. Could you dig in a bit more on the client-specific institutional bond outflows against what still looks like pretty robust flows broadly? And through that lens, are you still seeing a big institutional mandate pipeline, I guess, outsourcing the bond management capability like we talked about last quarter?

Gary Shedlin

Sure, Patrick. It's Gary. So, again, if you think about some of the trends that we've had, we've talked about during the year, I think we've seen broad-based strong performance and flows in our active fixed income business. That's come from a combination of some of the market environment that we've talked about, but also really strong performance across the platform, candidly. If you recall last quarter, we called out a number of very significant large, strategic client wins and we actually had about $65 billion of positive flows in the second quarter. This quarter, we had a couple of clients that went the other way and we had, I think, in the average [ph] about $7 billion of outflows in the quarter. Again, I would call those more client-specific, lumpy redemptions.

But it's hard to look at this in any three-month period of time. I think, more broadly, you need to look at the longer-term trend. And on a trailing 12-month basis, we're running right now at about $55 billion of active fixed income inflows, which is representative of about 7% organic asset growth rate.

So, I think we will have timing issues, but the clear trend here is very positive in terms of the strategic positioning of this business.

Operator

Your final question comes from Kent Worthington with JP Morgan. You may ask your question.

Laurence Fink

Hey, Ken.

Kenneth Worthington

Hi. Good morning. Thank you for squeezing me in. One follow-up on the earlier questions on e-brokerage. Do you think the move to zero commissions in e-brokerage might impact pricing in the wealth management industry more broadly, either in full service brokerage or advisory where pricing seems to have been pretty resilient thus far? And if so, are there opportunities for BlackRock to adjust its approach to distribution in the wealth management industry? You highlighted cash ETFs and e-brokerage, are there similar examples sort of for change in wealth management? Thank you.

Laurence Fink

There's no question, the resiliency of the overall fees for wealth management is pretty inelastic so far. We're starting to see some of the e-brokers charge much lower fees than the traditional wealth management platforms in terms of the overall advisory fee. But, unquestionably, when commissions are free, the investor is going to have to make a choice. Is the value proposition of having that advice worthwhile versus having a commission to your relationship? And every client is going to have to make that assertion.

But I do believe, just like we've seen in ETFs, we see now in e-brokerage, there is more and more fee pressure across different segments of financial services. Quite frankly, through technology, distribution is a better connection too.

So, I believe where we are going to benefit, with the evolution of what's going on in wealth, though, is models and portfolio construction. And I do believe a portion of that is going to be factors and ESG. I think those will be the added products like we said how cash and short-term duration bonds will be lifted by that. But we also believe the utilization of models and portfolio constructions is going to be a major component of that value proposition for advice.

And through that advice, we are absolutely confident that factors and ESG will play a larger role and it will accelerate adaption of those products.

Operator

Ladies and gentlemen, we have reached the allotted time for questions. Mr. Fink, do you have any closing remarks?

Laurence Fink

I'd just like to thank all of you for joining this morning and for your great questions and your continued interest in BlackRock.

Our third quarter results are directly linked to our deliberate investments we made over time, but, more importantly, our results speak loudly about the deep partnerships we're making globally with our clients.

I said it time and time again, clients are looking for solutions. They're not looking for an asset manager who's talking about a product. Clients are looking for asset managers who are helping them with their purpose, not the asset manager's purpose. The client is looking for organizations that can help them in risk-off periods, in periods of risk-on. And I believe if you look at our $350 billion of flows over the last 12 months, our model is working. And we are continuing to be excited about the opportunities we have for BlackRock in the future.

Thank you.

Operator

This concludes today's teleconference. You may now disconnect.