Published on: https://nilcost.substack.com (1 / 3 / 2024)
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Why BlackRock cannot own the world

Abstract

BlackRock, founded in 1988, is currently the world's biggest asset management firm with approximately $9.1 trillion under management as of 30th September 2023[1]. In the last couple of years a ton of posts and videos have emerged on social media and video content platforms (e.g. YouTube) which try to claim that BlackRock has a monopoly on the US economy and most parts of the world's economies via control of all publicly listed companies. In recent years this trend has also spread to some main stream media outlets, especially state operated ones in Europe.[2] This paper shows in great detail that this claim is wrong and by financial technical definition impossible.

Today an entire online culture exists of portraying BlackRock as criminals or cabal like predators and claiming that they and other big asset management firms, namely Vanguard and StateStreet, secretly run the world's economies. Most people who make such claims are creating own narratives or just echoing an existing conclusion after sifting through shareholder listing tables of a particular publicly listed company. They often do this with a variety of big companies from different important sectors, often of well-known names to simply further imply to the viewer the importance of this alleged matter and the danger and conspiracy that allegedly come from such big asset management firms. This is done with well-known consumer brands or industries crucial for today's world and society but with a bad public perception like the pharma or defense industry. In every sector, these three asset managers, were the three biggest, or at least in the top ten. These shareholder listings serve today as the main "evidence" for their arguments on which people make such videos and articles. Shortly put, the argument is that these minority holdings, often ranging from 3-6%, are being used to essentially blackmail companies into following certain cabal like monopoly agendas and social agendas. The fact that majority holdings, no matter how big the absolute dollar amount, is trivial to ones control over a company, does not seem to be part of the knowledge of these content creators themselves nor their articles and videos. Not even complex hypothetical consequences from such "dangerous majority holdings" are mentioned, it is just assumed that BlackRock and Co., with being a top 10 shareholder, controls these companies and thus they must have a monopoly. Should they refuse, so could probably be a theory according to the allegers logic, BlackRock could start a sell off of the particular company an drag the stock price down and additionally anticipating other holders also to sell, since BlackRock is such a household name and big shareholder. As a matter of fact, reasonable arguments about how BlackRock should pursue this alleged control-blackmail game, are never mentioned or in most cases no arguments at all are mentioned.

For a finance safe person with knowledge about financial products and knowledge about these big asset management firms, these holding structures come with no big surprise at all and such conspiracy claims are identified as a clear hoax. The illogical thoughts about BlackRock's business affairs can be refuted by naming facts that are important to be known about BlackRock and the industry they work and are specialized in.

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[1] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023059279/blk-20230930.htm, 12 / 18 / 2023

[2] https://www.zdf.de/politik/frontal/schattenmacht-blackrock-108.html, 1 / 8 / 2024

BlackRock

BlackRock is an asset management firms, and as the name implies, it solely runs and manages money on behalf of investors (institutions and private individuals). BlackRock is not a private investment firm with proprietary investment divisions. In other words, BlackRock itself as a legal entity does not own a single cent personally of these $9.5 trillion, it only manages these funds for investors, their customers. Furthermore, nobody from BlackRock or elsewhere forces anybody to invest in BlackRock's funds. Individuals and institutions only invest and have invested because BlackRock as a company offered services they have chosen to take based on multiple factors.

Of the $8.6 trillion BlackRock managed as of 31th December 2022, about 34% or $2.9 trillion were in ETFs (Exchange-Traded-Funds).[3] BlackRock markets those ETFs under the brand name "iShares". As we will outline later, ETFs are at the core of why BlackRock can't own the world. These roughly $2.9 trillion are managed in publicly traded funds, which is the part of the back bone of today's retail investing. Over a 100 million private individuals with all kinds of demographic and geographic characteristics are invested in BlackRock managed ETFs.[4] So the claim that BlackRock is a secretive firm where money is managed for a few high net worth individuals and big companies, who deviated from the online theories probably meet once a year on a dark dawn, is wrong. Furthermore BlackRock is one of the key enablers of today's investing possibilities for individuals through diversified index and sector ETFs, with diversification being a well-known and important factor for non-investing professionals. It is also important to note that all dividends are passed through to the end investor, thus implying further that BlackRock does not profit from any company directly but through fund fees which depend on the amount of assets in the ETFs, thus the higher the amount of assets managed and the more these ETFs grow due to asset performance, the more fees can be earned. BlackRock enabled through their different types of ETFs the average retail investor to being able to invest in an index where otherwise hundreds or thousands of different titles, sometimes across different geographical locations and exchanges with differing market currencies, would have to be bought. All in respect to the weights of the index which are subject to periodic weight adjustment, e.g. the S&P500 index readjusts its weightings quarterly according to market cap changes of all the index's holdings.[5] All this turns even into a more administrative difficult talk when derivates like futures and swaps, for e.g. commodity investing, have to be bought which requires certain technical investing possibilities and deep technical financial knowledge. BlackRock's products also enable the average investor to invest in certain regions outside the US, e.g. emerging markets, without having to go through hurdles like high opaque fees, using different brokers and having to buy foreign stocks they are interest in individually. Without an ETF a correct minimum representation of the SP&500 Index and the MSCI World Index according to their weights from their respective BlackRock ETF offering (IVV and IEFA) as of 22th January 2024, besides liquidity and administrative drawbacks, would cost about $12.3 million (and $176.5 million respectively[6], excluding transaction costs or other brokerage related fees (e.g. OTC block trading fees and clearing fees given the high dollar amount and share amount involved). The stocks of the ETFs closed on 22th January 2024 at $485.76 and $68.97.

[3] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023004343/blk-20221231.htm#item_1_business, 12 / 18 / 2023
[4] https://www.blackrock.com/americas-offshore/en/insights/investor-progress-report, 12 / 18 / 2023
[5] https://www.indexologyblog.com/2023/03/28/what-drives-sp-500-rebalance-turnover, 1 / 9 / 2024
[6] https://github.com/nilcost/nilcost.github.io/blob/main/blackrock/files/index.xlsx, 1 / 32 / 2024

Aladdin

BlackRock has its own internal asset recommendation and analysis software called "Aladdin" (Asset, Liability, and Debt and Derivative Investment Network). It is often claimed that BlackRock is run by an dangerous artificial intelligence who makes all the investments decision, therefore the world's economy must be run by an artificial intelligence. First, employing technical solutions that automate and recognize patterns is not wrong nor new. Opposite claims often stem from a lack of technical knowhow about how such artificial intelligence systems work or what they actually are. This leads in general to warnings about artificial intelligence that lack a basis of argument and facts, especially since the release of ChatGPT in November, 2022. Aladdin is system that analysis tens of thousands of portfolios with a big focus on risk management while simulating events based on historical and real time data from different financial markets and economic and social events throughout the world. As of 2016 Aladdin is written by about 25 million lines of code mainly in the programming language Julia[7], a language which is suitable for statistical analysis on big data sets. 25 million lines of code is a lot, furthermore it was written by about 1000 software engineers. It therefore suggests that is more a linear program but with very complex algorithms with great flexibility on analysis and simulation. It certainly employs some sort of deep learning, but it is not a god like black box system. As comparison, the current ChatGPT 3.5 large language model could be run by a few hundred lines of Python, as the heart of any neural network (node network) lies with their weights, simply put a file consisting of floating point numbers which are loaded when they are being used. While it is true that Alladin is an important backbone for BlackRock as a financial services company, it is not any different from a normal traditional trading company, where systems like SAP are crucial for the slightest working of the trading company. In addition, if Alladin were the sole recipe for highly guaranteed successful investment with no human interaction needed, there would be no incentive at all to license it to other financial services company throughout the world. It is used by about 1000 external organizations with about 130'000 investment professionals worldwide using it as of 2023.[8] It has totally about $21.3 billion under administration as of 2020.[9] Furthermore does Alladin not trade on its own, it is specifically focused on the risk parameters and other variables given by the user. Therefore Alladin makes investment proposals thus the choice for the investment to take lies with the investment professional. Alladin is not a world dominating artificial intelligence, it is a system employed by BlackRock which rather follows the Man-Computer Symbiosis as defined and envisioned by J. C.R. Licklider.

[7] https://juliahub.com/company/media/2017/03/aladdin-blackrock/, 18 / 12 / 2023
[8] https://fortune.com/crypto/2023/07/24/future-of-finance-blackrock-sudhir-nair-aladdin/, 18 / 12 / 2023
[9] https://www.businessinsider.com/what-to-know-about-blackrock-larry-fink-biden-cabinet-facts-2020-12?r=US&IR=T, 18 / 12 / 2023

BlackRock – A publicly listed company

In the fiscal year of 2022, BlackRock had annual revenue of $17.8 billion and annual profits of $4.9 billion.[10] BlackRock places on the Fortune 500 list (biggest companies in the USA based on revenue) on place 229, as of 20th December 2023.[11] Its revenue and its Fortune 500 ranking clearly shows that BlackRock is not the alleged monopoly that controls the American and worldwide economy and does not have earnings in the tens of billions of dollars as other companies have. Would BlackRock have an monopoly on the American economy, it must be by definition that BlackRock itself owns almost all of Americas biggest corporations across different industries, which of course is not the case. BlackRock owns minority stakes in most publicly traded companies, but with the very important fact that these companies are and indices components. BlackRock is part of a highly competitive financial industry. Its net profit margin of about 27.52% is higher than the financial industries average of 16.9%.[12] This shows nothing more than BlackRock is simply better than its competition, which does not imply in anyway any wrongdoing or monopolistic and cabalistic behavior.

BlackRock itself is a publicly traded company, listed on the New York Stock Exchange since 1999. Again contradictory to claims made, that BlackRock is a secretive monopoly owned by a few unknown individuals. BlackRock therefore publishes quarterly financial reports and every year an annual report. They report to millions of different shareholders, and have a duty under Delaware Law to always engage in shareholder interest and maximize shareholder value.[13]

These videos against BlackRock which sift through shareholder listing tables, often mention that BlackRock, is owned by a large part by Vanguard. With Vanguard being a private company and not showing any shareholder register, it is often absurdly implied and taken for granted that BlackRock is just a front organization for the secretive business Vanguard. A simple web search would have resulted in the conclusion that Vanguard is in fact, even though private, fully owned by publicly traded funds it manages, like ETFs and mutual funds. Therefore with Vanguard being the management company, it is owned by millions of different shareholders.[14] Ironically Vanguard revolutionized retail investing by pioneering the ETF space, with launching the first ETF ever in 1990 in Canada[15], giving huge advantages to retail but also institutional investors in terms of liquidity and efficient pricing compared to dominant retail investment vehicles at that time, e.g. mutual funds.

One critique point on which is often never further elaborated on, is that BlackRock is having all the voting power on the stocks it ~~owns~~ manages and therefore could "own" or "influence" the company. Even though it is never further mentioned why this is bad or somehow related to their alleged global power with a reasonable argument. BlackRock has and always will be, as a profit oriented business with an obligation to work in the interest of fund investors, only take votes at annual meetings that seem reasonable to BlackRock's staff in terms of the greatest increasement of value for their investors. The reasons for these decision are not important at all, as already said, their sole and main goal is to increase shareholder value.

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[10] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023004343/blk-20221231.htm#item_8_financial_statements_supplemental, 20 / 12 / 2023
[11] https://fortune.com/company/blackrock/fortune500/, 20 / 12 / 2023
[12] https://www.macrotrends.net/stocks/charts/FISI/financial-institutions/profit-margins, 20 / 12 / 2023
[13] https://corpgov.law.harvard.edu/2023/12/13/delaware-law-requires-directors-to-manage-the-corporation-for-the-benefit-of-its-stockholders-and-the-absurdity-of-denying-it, 20 / 12 / 2023
[14] https://corporate.vanguard.com/content/corporatesite/us/en/corp/who-we-are/sets-us-apart/index.html, 20 / 12 / 2023
[15] https://www.vanguard.ca/en/investor/learn/featured-group/basics/history-of-etfs, 20 / 12 / 2023

Should BlackRock, as they have in the past, take social and political oriented decisions into their voting process, it is again up to them to show to investors that such a strategy, like increasing profit long term while adhering to e.g. ESG standards, actually fulfills is expected financial outcome. Should it not be fulfilled or should it not satisfy investors expectation of an asset management company's duty, they can withdraw their money from the funds. This relates both to retail and institutional clients. As an example in the last few years, some institutional investors, namely some us state pensions funds, have pulled some of their investment mandates from BlackRock following their push towards ESG investing.[16]

BlackRock's communication and interaction with companies, besides proxy voting, is through letters and papers published publicly accessible on BlackRock's website. Therefore BlackRock solely makes recommendations to companies and not mandated changes through subliminal threats. Even though these publications have included social agendas, e.g. climate change, BlackRock always outlined that backslash could be faced from their clients worried about social and environmental issues and not BlackRock themselves.[17] But as future development showed, BlackRock is not part of a secret insider circle, as ESG investing turned from a hyped up "movement" to a failed idea. The idea of ESG was slashed by the public due to current status quo of high interest rates and a worldwide economic downturn. ESG is being reject for its connections with political and societal dogmas, its factors being absolutely unmeasurable[18]. The idea of ESG and its factors do not align with and weaken the workings of efficient economics and capitalism with its resulting outputs like wealth creation and economic growth. In general, geopolitical and economic developments after the end of low interest rates starting in 2022[19], in which financial and personal situations of an individual worsens, have led people to prefer profit and money over one's personal moral feeling and conscience-improving "social responsibility". The bet on ESG was solely a classic case of corporate expectations and corporate decisions. Corporate expectations that went into the wrong direction. Furthermore, for any investor interested in BlackRock's products, BlackRock's does not keep their voting procedure in secret, as they publish proxy-voting guidelines for all kind of geographical securities, e.g. US securities.[20]

As seen later, BlackRock also cannot blackmail a company by threating to sell their stake in relation to a hypothetical heavy sell of chain reaction that could follow. As it would be not only illogical, technical impossible, reputationally and especially financially extremely damaging, but also most importantly illegal.

[16] https://observer.com/2022/12/here-are-the-states-pulling-their-blackrock-investments-as-returns-on-esg-funds-lag/, 21 / 12 / 2023
[17] https://www.reuters.com/article/blackrock-fink/blackrock-threatens-backlash-against-firms-who-delay-climate-change-action-idUSL8N29J1ZM/, 1 / 8 / 2023
[18] https://realinvestmentadvice.com/esg-is-dying-its-inevitable-death/, 1 / 8 / 2023
[19] https://tradingeconomics.com/united-states/interest-rate, 1 / 8 / 2023
[20] https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf, 1 / 5 / 2024

BlackRock and governments

A critique point also mentioned is that BlackRock offers advisory services to government agencies around the world and that BlackRock would abuse these insights to manipulate and influence governments and financial markets. The first argument that de-weaponizes this argument, is that governments choose by themselves to consult outside advisors. Furthermore, in almost every industry todays government relay on advise and services from the private sector. Such as consulting on political matters, waste-management, architecture, city-planning, healthcare and much more, which includes naturally also advise on financial matters, the heart of any government. It is any form logical to advise outside advise from the private sector which holds much more experience, experts, insights and advantages for solution-seeking (e.g. software systems like Alladin etc.) than a typical low paying government agency does, where employees have less experience or no real word experience on the matters in question besides academic theory. They naturally have no financial or perk incentives to gain such experience to be on an equal level to private sector professionals. Furthermore do governments only continue relationships and deploy further contracts if also valuable and successful bringing solutions are provided. BlackRock, as a profit depended public market business, has therefore the incentive to provide advice on financial questions that actually deliver results and therefore it can't put governments into crisis or pull some conspiratorial costly stunt for the matter of a bigger non-business agenda that hurts profit for an undefined period of time. The fact that BlackRock is publicly traded, strengths this fact even more. Another example of a misinterpretation of BlackRock's advisory dealings is a specific contract from the Ukrainian government with BlackRock and J.P. Morgan. It was publicly announced in June 2023 regarding the "rebuilding of the country" following the conflict with Russia which resulted in damaged infrastructure and civil living areas in some parts of the country. The theory goes that BlackRock and J.P. Morgan are the sole responsible active contractors in rebuilding the country, and thus they would cover all professional areas that are part of city planning and city infrastructure.[21] The main critique point from this false contract interpretation, is the alleged shared monopoly position of BlackRock. The facts however show the true side of this contract and dismantle the allegations made against BlackRock. BlackRock and J.P. Morgan have been assigned solely on task of setting up fund structures, founding a development bank and assign board roles to G7 officials and well-respected businessmen from the financial sector. The goal of including such household names is to make such high investments in the most corrupt[22] East-European country trustworthy. With BlackRock and J.P. Morgan being responsible for fund raising from private investors, after first-mover investments from other governments, the first hurdles for making infrastructure investments in Ukraine more attractive have been removed. With BlackRock and J.P. Morgan belonging to the biggest players in the financial industry with decades of experience in such matters, an army of professional around the world and highly advanced technological capabilities it seems very reasonable and understandable that Ukraine has chosen them for advice and fund setups. Given in addition that BlackRock and J.P. Morgan are donating their services.[23] Furthermore does BlackRock not have neither the experience, expertise nor capabilities to realize such large and risky infrastructure construction on its own. It is also not part of their core or secondary business. BlackRock is not taking part in choosing construction contractors. Given all the risky parameters, giving investment privilege to insiders or other players is not reasonable, as only highly specialized infrastructure fund managers are likely to invest after foreign governments have made the first move.

[21] https://www.youtube.com/watch?v=Mvh4o6x3-GQ, 1 / 12 / 2024
[22] https://www.coe.int/en/web/corruption/completed-projects/enpi/newsroom-enpi/-/asset_publisher/F0LygN4lv4rX/content/ukraine-most-corrupt-country-in-europe-after-russia, 2 / 11 / 2024
[23] https://www.ft.com/content/3d6041fb-5747-4564-9874-691742aa52a2, 1 / 12 / 2024

<u>BlackRock's business</u>

The following charts shows BlackRock's total assets under management respective to their offered asset classes as of 31th December 2022[24] (numbers in millions USD):

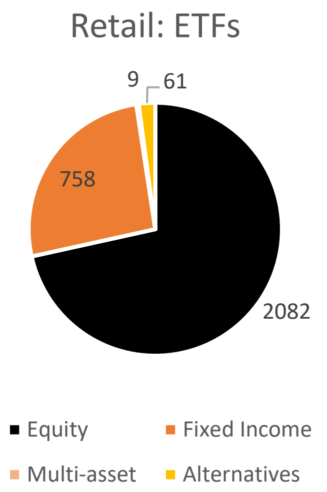

Figure 1

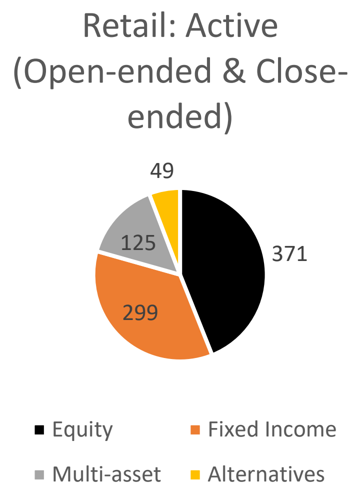

Figure 2

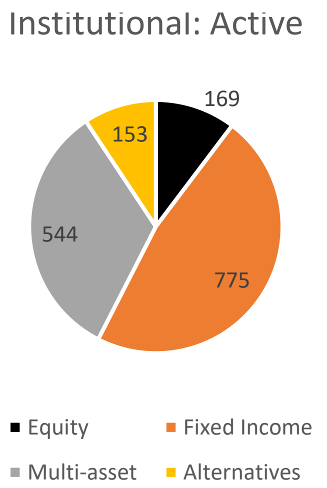

Figure 3

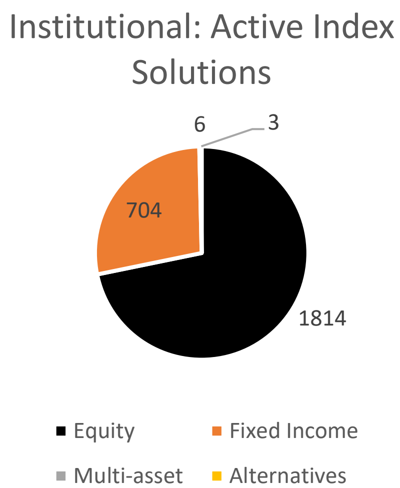

Figure 4

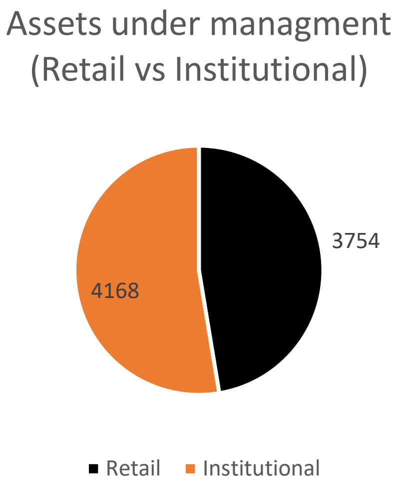

Figure 5

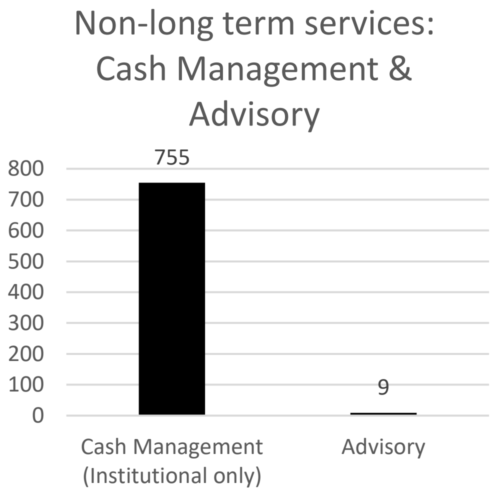

Figure 6

[24] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023004343/blk-20221231.htm#item_1_business, 21 / 12 / 2023

The figures show that BlackRock offers financial services to both retail and institutional clients on a roughly 50-50 basis. Most of the investment solutions for retail investors are publicly traded, where the biggest part consists of ETFs (passive managed and open-ended) and some active managed open-ended and closed-ended fund solutions. BlackRock's ETFs and active funds are listed in the regions of United States, Ireland, German, Luxembourg and Ireland. Where in the EU funds are also being sold under the UCITS directive, making selling funds in the EU (European Union) much more easier since only a specific set of rules regarding the whole EU has to be met to distribute funds. Instead of matching each countries individual tax and securities laws. Some nonpublic close-ended funds, open for qualified individuals and institutional investors only, are private investment vehicles, with feeder-fund structures to allow a global investor base to invest. For reasons of cost and flexibility, the main fund of the feeder structure is most likely to be located in an offshore financial center, e.g. the Caymen Islands. These private investment vehicles are for alternative investment funds and thus in most countries only open to accredited investors. This definition regarding individuals varies from country to country, but with the USA as an example, assets exceeding $1 million (excluding real estate) or an annual income of $200 thousand is required to invest in private investment vehicles according to SEC rules. This rules only apply if these funds are marketed to investor, and with BlackRock as a financial services firm offering investing solutions to a variety of clients, this is the case.

The point being made is that BlackRock is not a shadowy private company that provides investment mandates for a secret cabal which secretly controls the world. BlackRock is an asset management firm and is, as any other such firm, providing investment solutions on a variety of assets and in a variety of forms to invest. Solutions often tailored for the needs of a specific customer base, e.g. retail and institutional investors. BlackRock is therefore in the fee business, and the more inflows or assets under management BlackRock has, the more management fees they earn. It is not their money, it is the money of their customers who choose to invest in BlackRock products after choosing from a variety of providers in a highly competitive market.

BlackRock manages about $205 billion in alternative assets, excluding the $61 billion from alternative ETFs which mainly evolves around commodities. BlackRock specifically wrote in its 10-K filing from 2022: "ETF commodities products represented $61 billion of AUM and are not eligible for performance fees".[14]

Compared to other services and financial products, BlackRock not only charges consistent management fees but also performance fees on any positive returns. Whereby these positive returns may are being subject to hurdle rates (e.g. in comparison to benchmarks or inflation rates). In the alternative segment, it offers the classical five pillars of alternative investing: hedge funds, private equity, private credit, real-estate and infrastructure. It therefore is comparable to any other firm that is specialized on alternative assets only. With assets under management of $207 billion as of 30th September 2023, excluding commodity ETFs of $64 billion,[25] BlackRock places on the 8th place of the world's largest alternative asset managers in September 2023.[26] This implies that:

a) BlackRock is not the monopolistic asset manager conquering every aspect of the financial industry as people suggest
b) Alternative assets is one of the most profitable business segments in the financial industry due to performance fees (also called incentive fee). However, BlackRock has a small footprint compared to the total amount of assets it manages, and is smaller than rivals in

[25] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023059279/blk-20230930.htm, 12 / 24 / 2023
[26] https://investingintheweb.com/blog/largest-alternative-asset-managers/, 12 / 22 / 2023

the alternative industry. This shows that BlackRock is dedicated towards providing liquid passive (and also active) financial products and investment solutions. As BlackRock relies on management fees, a strong relationship to clients is pursued to preserve clients assets, ensure new inflows, and prevent outflows. Their core business is not making a few highly risky bets in the financial markets as often seen at smaller specialized hedge funds. Thus claims that BlackRock harms, manipulatives or even rigs the financial markets are not logical. This can be further outlined, by comparing BlackRock's earnings from management fees and performance fees, which are in the year of 2022 $14.5 billion and $514 million respectively.[27] BlackRock had alternative assets under management of $205 billion in the same year. Assuming BlackRock earned fees of $514 million with the classical 20% performance fee that it usually charged in the alternatives industry, BlackRock would have earned about $2.6 billion for its investors before fees, or an average return of 1.26% across all funds.

To compare these numbers with those of the world's 7 largest alternative asset managers (before BlackRock) the same metric as with BlackRock was applied. If the maximum charged performance fee was not shared in the respective 10-K SEC filing of 2022, the classical 20% performance fee is assumed for this comparison.

As can be seen in Figure 8, BlackRock actually outperforms it peers by a quite big margin across the 5 divisions of the alternative asset class. This implies that BlackRock is not dominant in the alternative space in terms of assets under management but more in terms of performance, even though alternatives are not their area of specialization. Bloomberg even reported that a single hedge fund manager who runs a European equity fund at BlackRock earned more than its CEO Larry Fink.[28] BlackRock seems not to have a management team that overrules their ego regarding peer-compensation and does not let it get into the way of conducting business in the best interest of shareholders and the financial outcome of the business.

[27] https://www.sec.gov/ix?doc=/Archives/edgar/data/1364742/000095017023004343/blk-20221231.htm#item_8_financial_statements_supplemental, 12 / 22 / 2023
[28] https://www.bloomberg.com/news/articles/2021-10-28/blackrock-ceo-larry-fink-is-paid-less-than-his-top-hedge-fund-star, 24 / 12 / 2023

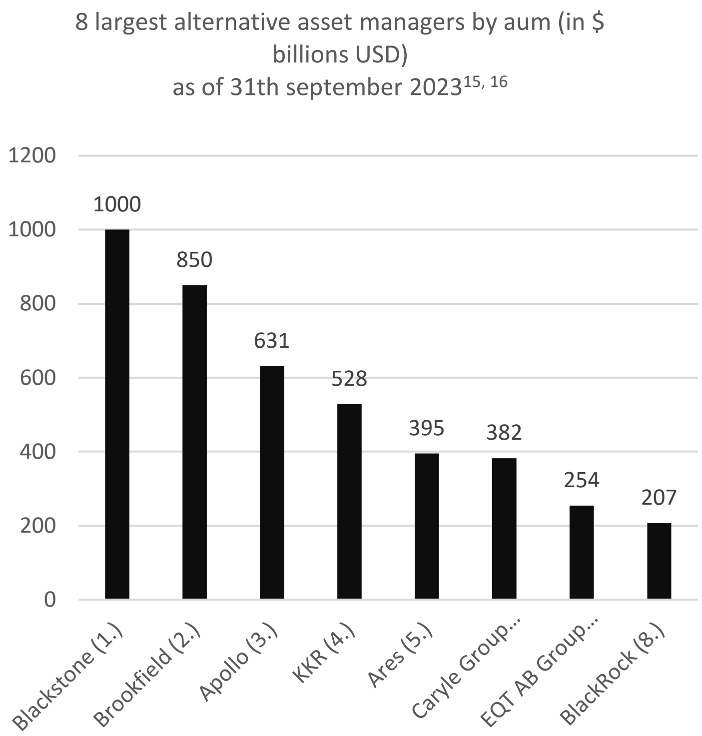

Figure 7

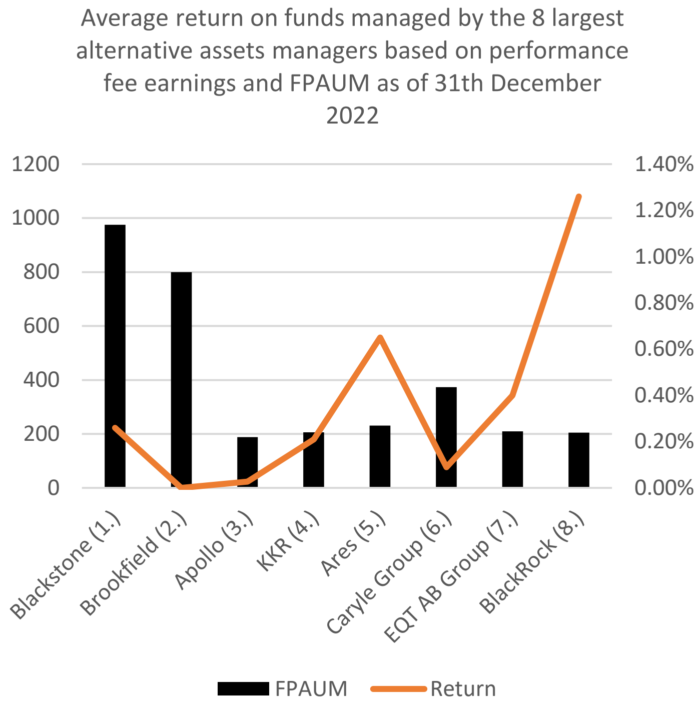

Figure 8
Based on each respective 10-K SEC filling and / or annual report

BlackRock vs. Hedge funds

The picture however changes rapidly when comparing BlackRock to more specific divisions of the alternative asset class, namely hedge funds as an example. The 9th best performing hedge fund manager in 2022 in terms of absolute return (%), Systematica Investments, returned 29.4% or $3.9 billion on $13 billion aum. The 6th best performing, Citadel LLC, returned 38.1% or $16 billion on $62 billion aum – a record breaking year for the hedge fund industry.[29] Hereby it shows that BlackRock competes against a variety of firms who are highly specialized, and is being outperformed by firms that have much less assets under management. This shows again that BlackRock is an asset manager that has highly diversified offerings but is mostly focused on liquid investment solutions for retail and institutional clients. It earns management fees on the assets it manages, while also offering alternative investment solutions on which it charges performance fees. Using the classical classification terms of an market participants, BlackRock is not a sole “speculator”.

A hedge fund is extremely dependent on performance and in a hurry to raise new additional money if needed. It also must always prevent client outflows as it hurts the capacities of the employed strategies and therefore the profit that comes from charging performance fees. Performance is the heart of the hedge fund business. As an example, performance fees are very important to remain investment talent in an industry where talent is scarce and the competition to attract talent is high.

To outline it even more, hedge funds often apply a high water mark where years of benchmark underperformance, or even negative returns, result not only in client outflows but also in less to zero performance fees charged. Therefore, not only can no to little bonus payments for investment talent

[29] https://hedgevision.substack.com/p/the-top-performing-hedge-funds-of-15e, 24 / 12 / 2022

be provided, but it also means that the previous watermark level has to be reached. Until then no performance fee can be charged during that ongoing period.

As an example: After the "meme stock" craze in 2021, during which Melvin Capital made significant losses due to large short positions on stocks that were targeted, its hedge fund manager decided in 2022 to close the fund and return all remaining assets[30]. As he know that it would be very hard and time consuming to reach that water mark again.

As the he hedge fund industry is very competitive, with million dollar signing bonuses offered from competitors, investment talent will jump ship because it will never see a portion of their profits made for the fund until that water mark is reached again. To illustrate the consequences that can come with high water marks: Making a 50% loss means the hedge fund management firm has to gain 100% to reach the same NAV (Net-asset-value) level as before. It must become even with investors to be allowed to charge performance fees for future positive returns again. The only other solution is raising money (receive a bail out) from new or much less likely existing investors.

It is therefore not an overstatement to say that BlackRock's overall main business model is much safer than that of some counterparts in the financial industry. Regarding other risks BlackRock shares the same metrics as any other business, e.g. critical internet infrastructure failures, attacks on ones IT infrastructure, interest rate movements and the reactions that follow, recessions and their following decrease in customer demand and spending (individuals and private), overall state of financial wellbeing (in case of less financial wellbeing: more outflows), restrictive regulation or legislation etc. Of the $207 billion it manages in alternatives as of 31th September 2022, about $33 billion are in active managed hedge funds[31], still very large but much less than some of its hedge funds competitors.

BlackRock – The alleged monopoly

According to internet theories BlackRock owns the world and is a monopoly, or to me more precise: It allegedly controls all the worlds companies through its stake in almost every worldwide publicly listed company. However, a crucial fact is ignored. Control over a company can always only be accredited and recognized in case of a majority ownership (> 50%). This is not the case in a single company of which BlackRock is a shareholder of. Given the fact that in 2023 the worldwide market cap of all publicly listed companies totaled to about $112 trillion[32], it is unimaginable that a single entity could raise more than the half of that amount. Furthermore, in practical terms this is not possible. This comes from the fact of (just naming a few): Various antitrust laws and other regulations being worldwide in place, general bad and skeptical responses and opinions from government agencies in respect to large acquisitions and mergers, nationalistic laws preventing outside investor capital and large acquisitions (e.g. North- and South America and Europa but heavily in Asia - see the case of Carlos Ghosn in Japan as reference of even unofficial measures being taken)

BlackRock's capital power in the worldwide equity market stems from their ETFs, which hold minority stakes in companies worldwide. An ETF is an investment vehicle focused on e.g. a specific country or sector, where the fund shares are owned by investors. BlackRock's stakes therefore do not stem from active proprietary investing for their own book. The alleged indirect blackmail practices, mafia methods or similar illegal doings, which for a financial company that provides services to customers

[30] https://www.reuters.com/markets/us/hedge-fund-melvin-capital-tells-investors-it-plans-shut-down-letter-2022-05-18/
[31] https://www.blackrock.com/institutions/en-us/strategies/alternatives/hedge-funds, 25 / 12 / 2023
[32] https://www.statista.com/statistics/274490/global-value-of-share-holdings-since-2000/, 3 / 1 / 2024

and which is in the asset dependent fee business, would be extremely harmful and would lead to a cease in business practices. It shows that most people who accuse BlackRock of negative practices do not even know about their core business or did not care about even informing about it.

Control in the further sense would also include being responsible for these companies, as there would be no sense in being a passive majority owner of a company. Creating two scenarios through the conspiracy glasses can show the limitations and negative aspects of a potential monopoly:

- BlackRock trades for its own book (and a few outside investors) and buys majority stakes. That would then also mean that BlackRock is being dependent on generating profit through stock sales and dividends and not being on fees from assets under management. Furthermore, as (also in the real world) BlackRock's stakes in companies never vanish, it would mean that they would own it as an real ownership and not just as a private equity investment on a 5 to 7 year horizon. Even only managing all the public companies in the Fortune 100, focused solely on the US would be an tremendous task in terms of: Highly specialized staff that is required, research that has to be done, coordination between all the different teams that has to be organized etc. Going over to other countries and continents with totally different cultural, legal and business dealings, the task gets even more complicated and requires an even much bigger head count and organizational structure.

  While it is common that some family holdings, which own a majority stake in a range of businesses, outsource the whole managing process to experienced management executives and only possess board seats, it is important to note that: The amount of business is manageable, these businesses were often always private in their entire history, share no public investor history and are in most cases established market players for decades with solid financial results. Also: The businesses were in some cases inherited or bought with personal assets, with a pure long term investment and wealth perversion focus.

  As an investment firm, BlackRock would still share the same task with private equity firms of making the companies more flexible, efficient and most importantly improve the financial situation and making it more profitable. As there would be no logical reason of raising trillions of dollars for buying majority stakes in almost every public listed companies just for the sake of a potential good investment that nets a good potential return from passively expecting the stock and dividends to rise.

  Given that they would only invest for the very long term (as said before, their stake never entirely vanishes), unrealized stock gains would be trivial to them since they still need a majority ownership to control the business and therefore would be not in position of selling of big chunks to the market. Excluding other influential factors like market impact and other market risk factors. Given the fact that a lot of publicly listed companies are, besides from high rising stock prices, not profitable to highly unprofitable, it leaves no room for a gain from dividends. The restructuring process would be even more difficult and hard, as debt lays behind the corner and some public business solely live on the hype of its potential future impact.

- Developing a second scenario: BlackRock had 189 equity ETFs at the beginning of 2015. BlackRock would proprietarily invest in one big basket representing all the equities that are part of these ETFs while keeping the specific weights each stock has in respect to the total aum of all these ETFs.

BlackRock would have netted a 231% gain from 2th February 2015 to 31th December 2023[33], which is remarkable but this investment would still have underperformed the S&P 500 index in the same period by 1.4%[34]. But in this case, given the weights according to these stocks have been purchased in respect to the invested sum, they would not have majority ownership in any single stock. Therefore, BlackRock would not be in the alleged monopoly control position, the whole matter would be a pure public market investment. The important question arises if such profit amounts could actually be realized in a short enough time horizon in which the accumulated unrealized gains don't flow away in a too large manner. This is why capital limits in investment strategies are an important part of public investing. Also, again market impact and other risk factors in the buying and selling process is excluded in this scenario.

Both scenarios show that such a diversified amount of ownership in businesses, a "worldwide monopoly", is not a sustainable investment. BlackRock is and always has been in a much safer and more sustainable business, in the business of providing financial services for hundreds of millions of individual customers and tens of thousands of businesses and other financial institutions. BlackRock's business model is not in the position of being a monopoly, it is a business model consisting of investing services. A business model that has proven itself for now more than three decades.

[33] Analysis with BlackRock equity ETF data from https://www.ishares.com, the source code for this analysis and other statistical overviews can be found on https://github.com/nilcost/nilcost.github.io/blob/main/blackrock/files/br.zip. See *Appendix* for the data visualization of some of the analysis about BlackRock's equity ETFs.

[34] https://finance.yahoo.com/quote/%5EGSPC/history?period1=1422748800&period2=1703808000&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true, 1 / 4 / 2024

The technical workings of ETFs

As it has been outlined before, BlackRock does not own majority stakes. To further debunk myths that BlackRock could potentially influence c-suites of companies by threatening to sell of stakes or by other market impact measures, it is crucial to look at how ETFs technically work.

ETFs were introduced as a new investment pool solution against the status quo of mutual funds. With the big advantage being that instead of after-market NAV reporting from the fund management firm, ETFs could be publicly traded on major exchanges. Offering efficient real time pricing from market participants quoting in the order book and huge liquidity. The ETF could be bought and sold throughout the trading day, and given today's age of technological development in the financial sector, high speed dedicated and proprietary market makers provide for tight spreads and huge liquidity for all types of ETFs. A new form of fund was created, to not only trade active managed vehicles, but also vehicles that always almost perfectly represent an own newly created index or an existing, mostly prestigious index. An index created and calculated by an index services company, e.g. the S&P 500 by S&P Global Inc. or the Nasdaq 100 by Nasdaq Inc.

The ETF moves accordingly to the movements of the underlying holdings, mostly equities. So market participants could offer bid and ask bids based on the real time movement of the underlying publicly traded stocks. An ETF, mostly a trust entity – to be more precise an open-ended investment company or unit investment trust[35] - is offered under a name that indicates the ETFs specialization or index representation. It is a legal entity that only holds stocks and IPOs on a major stock exchange. With an index fund, weights are also kept true, thus creating an almost perfect representation. With the stocks and some cash reserves being the only assets the company holds, the company's value can be trustfully calculated in real time. ETFs providers are also demanded by SEC rule 6c-11 to post daily NAV and holdings reports and making them publicly accessible on their website[36]. The price of an ETF therefore consists of the underlying assets divided by the amount of ETF shares currently issued. "currently issued" leads us nearer to the heart of ETFs, as they are not closed-ended funds. The question may arise how the ETFs react to huge market movements, as rally situations can result in more than average demand for a particular ETF or a market downturn can lead to more than average demand to sell a particular ETF. In other words, how to ETFs react to irrational market movements that are not truthfully based on movements of the underlying assets, thus resulting in so called premiums and discounts. And how does the ETF trust buy and sell the underlying assets. Assets which are subject to changes and therefore subject to changes to the weight each individual stock represents (e.g. market-cap based index). This finally leads us the heart of ETFs, its technical workings[37,38] . It is simplified and illustrated in figure 9.

[35] https://www.sec.gov/investor/alerts/etfs.pdf, 1 / 4 / 2024
[36] https://www.sec.gov/news/press-release/2019-190, 1 / 4 / 2024
[37] https://www.blackrock.com/au/intermediaries/ishares/authorized-participants-and-market-makers, 1 / 4 / 2024
[38] https://www.investopedia.com/articles/mutualfund/05/062705.asp, 1 / 4 / 2024

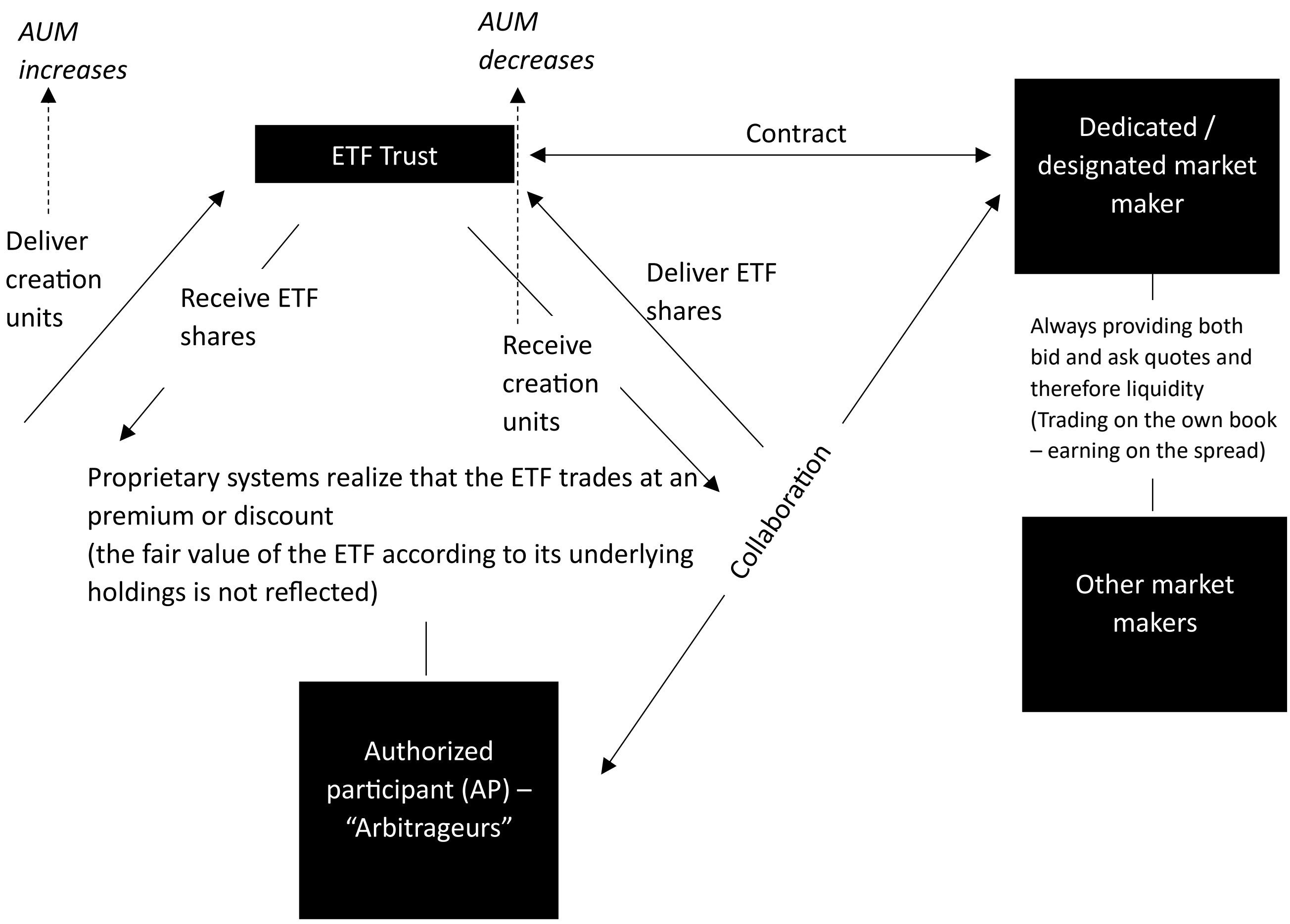

Figure 9

BlackRock and other ETF providers work with two crucial financial partners, authorized participants and dedicated market makers. Other market markers which have no contractual relationship with the ETF provider are also important since they share the same operating field as the dedicated market maker. As can be seen in figure 9, the market maker provides liquidity by quoting both bid and ask prices, whereby he gets compensated by the spread from buying at the bid and selling at the ask.[39] This makes the ETF liquid and accessible for existing and new investors to buy and sell instantly at any given time. This also includes other market participants like quantitative trading firms, who buy and sell more constantly based on algorithms that inherit time dependent strategies based on a given time horizon. Examples of designated market makers include big traditional banks but more often and more dominant than ever smaller highly specialized and technological developed shops like Citadel Securities, Jane Street and Susquehanna International Group.

As it was noted before, all ETFs vehicles are open ended. The ETF trust however, does not issue new funds on its own, for the simple but important matter of tax costs. Buying tons of shares every day to issue new ETF shares or selling tons of shares every day leads to high capital gains taxes. Therefore, it would not be possible for the ETF trust to reflect an index truthfully as it would be subject to high taxes. These taxes would have to be taken into consideration when evaluating the ETF trust.

[39] https://fastercapital.com/content/Market-Maker--Demystifying-Bid-Ask-Spread--The-Role-of-Market-Makers.html, 1 / 2 / 2024

Thanks to clever financial and legal engineering, which was done in the 90s, the impact that ETFs represent today is even possible. Besides the market maker, a second participant was introduced: The authorized participant (AP).

To bypass high taxes while staying in a legal framework, a market participant was needed that is not related to the ETF provider and does only exchange physical assets with the ETF provider. Therefore he does not engage in buying or selling activities that result in cash transaction which would be subject to tax charges. Authorized participants are, to use a more precise term, arbitrageurs that profit from risk free differences in the ETF and its underlying assets.

If the price of the ETF trades at a discount – the fair value (the value of the underlying holdings divided by the current amount of issued shares) is higher than the price the ETF it is currently trading at. This discount can happen through normal trading activities, sudden higher than usual investor demand. The market maker can "inform" the authorized participants. He then buys ETF shares from the market makers in the public secondary market and exchanges these shares with the ETF trust for ETF shares. This exchange happens in the primary market. This is done in often so called "creation units" or a "creation basket" which represent a certain amount of ETF shares or shares of the underlying stocks in accordance to the specific weights the ETF represents. Common amounts of ETF shares are 50'000 or 100'000 shares. After exchanging the ETF shares with a basket of the underlying stocks, the amount of outstanding shares of the ETF decreases and therefore automatically increases the price of the ETF by reflection of order book activities from market makers and other market participants. Thus a) the ETF profits in a more precise reflection according to its underlying assets which b) benefits the ETF investors as the underlying reflection is more truthful and c) whereby the authorized participants can sell the specific underlying assets at a profit in the public secondary market which he "bought" at a lower price through ETF redemption and d) the market maker profits in selling ETF shares to the authorized participants in big blocks and knows in advance about a upcoming price movement.

The same process is similar with ETFs trading at a premium, where hereby the authorized participant buys the underlying stocks and creates a "creation unit" which he exchanges for new ETF shares. Thus increasing the amount of outstanding shares and decreasing the share price. Furthermore, the dedicated market maker waits for the authorized participant until he has sold the ETFs shares at the current premium trading price. Afterwards, the market maker takes action and the increase in outstanding shares is reflected in the price.

Authorized participants have unlike dedicated market makers, not the obligation to engage in their respective activity. Which is in the case of authorized participants the creation or redemption process. These authorized participants are mostly represented by big traditional banks and other financial institutions like J.P. Morgan or Citigroup.

This new creation of financial and legal engineering, an incentive system run by profits offered through arbitrage opportunities and therefore profit seekers take part in, makes ETFs work as intended. By allowing the ETF to reflect the index or underlying shares correctly, a working correct product for investors is available. Furthermore, no tax charges apply. Which is very crucial for large ETF, like BlackRock's S&P 500 ETF with assets of $394billion USD[40]. This ETF itself, belongs to the top 3 of stocks with the highest trading volume in the US and worldwide. This whole system is running and working due to this ETF arbitrage incentive structure.

[40] https://www.blackrock.com/us/individual/products/239726/ishares-core-sp-500-etf, 1 / 4 / 2024

The case of BlackRock

Coming back at a statement made earlier in this paper: “illogical, technical impossible, reputationally and especially financially extremely damaging, but also most importantly illegal.” Now with a solid understanding about BlackRock itself and the environment it competes in and how ETFs technically work, the conspiracy theories around BlackRock can be further debunked:

- A lack about basic company control structures, where control can only be achieved by majority stakes with >50% (excluding special voting shares, which are not a part of an ETFs holdings), seems to be present within individuals and groups making these claims and theories. Even with other large ETF providers like Vanguard and State Street combined, a majority stake is not met as. This can be seen with companies like Apple, which makes up the biggest component in the S&P500 index, where these 3 asset management firms own collectively 19.09%.[41]

- Regarding the technical structure of an ETF, selling a certain stock after a company “did not comply” is not possible. The correlation between the index ETF and the underlying index would fall and therefore the use of the product itself vanishes, leading to huge outflows and inflows to other ETFs representing the same index. Removals from passive ETFs only occur in certain cases: e.g. a company with a quite low market cap compared to other components of the same index is replaced by a new company with a higher market cap.

- In regards to actively managed ETFs by BlackRock, 36 are offered compared to 388 index ETFs. They are not only smaller by a big margin in regards to the amount being offered, but also in terms of assets under management with $13.3 billion[42] and about $2.9 trillion[43] respectively. Furthermore, the largest active managed ETFs focus on fixed income (e.g. corporate bonds, treasuries etc.) thus being even less in a position of dominance. Blackmailing someone, in whatever ridiculous form it might be, is highly illegal. There is also no incentive present for BlackRock to pursue such practices as BlackRock’s ETFs are not dependent on performance but assets under management. Performance based asset management is not their core business and charging performance based fees is not allowed in regards to ETFs.

- As outlined earlier with the workings of the legal and financial technical structure of an ETF, the ETF trust is in no position of selling any stake due to high short-term capital gain taxes. Short-term capital gains are being taxed as ordinary income in the United States.[44] The underlying assets are exchanged with the authorized participant, which holds the role of selling stocks for tightening the correlation of the price of the ETF with the price movement of the underlying index or assets.

  The investment trust obligates itself to a lot of SEC regulations and the facts and promises stated in their prospectus and factsheets. The investment trust also signs binding contracts with authorized participants and market makers. The ETF trust therefore obligates itself to

[41] https://finance.yahoo.com/quote/AAPL/holders?p=AAPL, 1 / 4 / 2024
[42] https://www.ishares.com/us/products/etf-investments#/?productView=etf&style=44341&pageNumber=1&sortColumn=totalNetAssets&sortDirection=desc&dataView=keyFacts, 1 / 4 / 2024
[43] https://www.ishares.com/us/products/etf-investments#/?productView=etf&pageNumber=1&sortColumn=totalNetAssets&sortDirection=desc&dataView=keyFacts&style=44342, 1 / 4 / 2024
[44] https://www.irs.gov/taxtopics/tc409, 2 / 4 / 2024

investors, business partners and regulators. Any kind of unnormal or sudden extreme behavior in the underlying assets, besides from the tax issue, that result in losses for the investor side but also lost revenue from the business partner side, are all subject to litigation including investigations by the SEC.

It would be extremely damaging for BlackRock not only reputationally but also financially (through outflows), should they conduct any actions that are not expected from an asset management firm or deviate from the investment prospectus. Following such practices, chain reactions with a negative impact happen, e.g. lawsuits and a decrease of the value of BlackRock's stock.

Conclusion and final thoughts

With a solid understanding about a) BlackRock itself, b) Blackrock's business model, c) the industry they are working and competing in, d) BlackRock's product suite and e) how ETFs technically work from a financial and legal perspective, the claims about BlackRock's alleged power and monopolistic conspiratorial business practices can easily be refuted. The range of argumentation bases available against these conspiracy claims is highly diverse: From law, basic business administration practices and economic workings to the overall financial industry. This paper shows that BlackRock is actually exactly the opposite of all the things it is accused off. Instead of being a secretive investing firm that secretly controls the global financial and economy - which as it has been shown earlier is not financially sustainable - BlackRock is a financial services firm that offers a rich set of different investing opportunities for all kinds of investors. Furthermore, BlackRock is largely responsible for today's level of retail investment opportunities, giving millions of individual retail investors more flexibility, efficiency and freedom in their investment process.

Appendix

Overview of BlackRock's equity ETFs. Data from https://ishares.com as of 1 / 2 / 2024. The source code for this overview and additional analysis, is available for download at https://github.com/nilcost/nilcost.github.io/blob/main/blackrock/files/index.xlsx