

FINANCIAL TIMES

The ten trillion dollar man: how Larry Fink became king of Wall St

He built BlackRock into the biggest money manager the planet has ever seen. But should one company wield so much power?

Robin Wigglesworth

October 7, 2021

On April 16 2009, Rob Kapito went to the newly built Yankee Stadium, where the pride of New York was taking on the Cleveland Indians. The economy was in a shambles, after the US mortgage crisis had rocked the global financial system, and many Wall Streeters were desperate for distractions. But the balding former bond trader was not there to watch a game of baseball.

Kapito was on a secret mission that would not only transform the fortunes of his employer, the investment group BlackRock, but change the face of the financial industry. Bob Diamond, the chief executive of Barclays Capital, was watching the game from his corporate box at the stadium, and Kapito needed an urgent, discreet chat with his old friend. So he scalped a ticket and made his way to the Bronx.

Barclays had taken a plunge by acquiring the US parts of Lehman Brothers when the investment bank imploded in 2008, but the deal quickly became a deadweight dragging the British bank down as well. By early 2009, Barclays was scrambling to raise money and avoid a UK government bailout. That meant it was open to selling the family silver, including its pioneering asset management arm Barclays Global Investors. It was even willing to sell it off piecemeal.

In early April, Barclays accepted a \$4.2bn offer from CVC, a London-based private equity firm, for BGI's rapidly growing exchange-traded fund (ETF) unit, iShares. Crucially, the agreement included a 45-day "go-shop" provision, which permitted Barclays to talk to other people who might be interested in topping CVC's offer. This gave BlackRock an opening — but one it had to seize quickly.

The Yankees lost to Cleveland that night, but Kapito missed the entire game. He rushed up to Barclays' corporate box, knocked on the door and asked Diamond to come out for a chat. Diamond agreed, and the two went for a walk. "Do you want to play checkers, or do you want to play chess?" BlackRock's president asked Diamond, and presented his proposal.

Instead of selling iShares to CVC, Barclays should sell all of BGI to BlackRock, said Kapito, in return for a big slug of money and stock in the combined company. That way, Barclays would get the capital it needed to avoid a bailout and still enjoy an

interest in its money management arm through a substantial block of ownership in BlackRock, which would be transformed into a giant of the investing world.

“That’s a very intriguing idea,” Diamond replied. In fact, he had already received board approval to explore the sale of the entire business, and thought BlackRock was a natural buyer. He agreed to bring his boss John Varley to visit Kapito and BlackRock’s chief executive, Larry Fink, the next day. Two months later, the deal — worth \$13.5bn at the time — was sealed and announced to the world.

Despite some early strife, it has proved phenomenally successful. BlackRock has become the largest asset manager on the planet, investing money for everyone from pensioners to wealthy oligarchs and sovereign wealth funds. Today, it is one of the biggest shareholders in virtually every major company in America — and quite a few internationally as well. It is also one of the biggest lenders to companies and governments around the world. And its technology platform Aladdin provides essential wiring for swaths of the global investment industry.

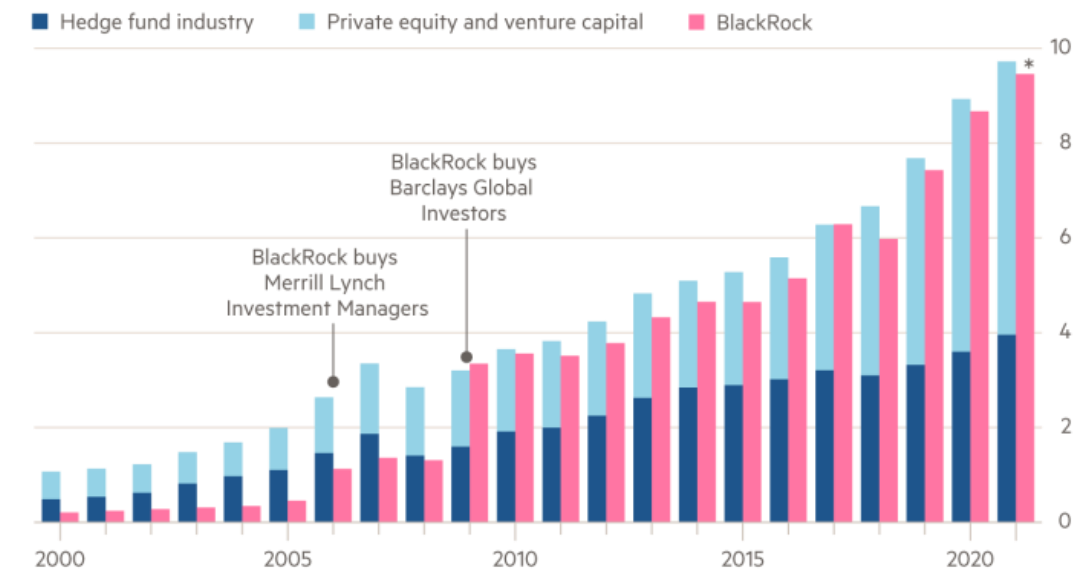
By the end of June this year, BlackRock was managing a whopping \$9.5tn in assets, a number that would be barely comprehensible to most of the 35 million Americans whose retirement funds were managed by the company in 2020. Assuming its recent pace of growth has continued, BlackRock could reveal in its third-quarter results on October 13 that the number has crossed the \$10tn mark. By the end of the year, it is likely to have vaulted over that level.

To put this in context, it is roughly equivalent to the entire global hedge fund, private equity and venture capital industries combined, and has catapulted Fink, now 68, from being a highly regarded finance industry chieftain into the rarefied ranks of corporate executives referred to by their first name.

Today “Larry” is the undisputed king of Wall Street. Having founded a small bond investment house just three decades ago, he has managed to build it into a vast financial empire, the likes of which have never been seen before. However, with power has come mounting scrutiny. BlackRock has become a lightning rod for criticism for both the political left and right.

The rise of BlackRock

Overall assets under management (\$tn)



Source: BlackRock, HFR, Preqin
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* BlackRock AuM as of end-June 2021

Even some fellow Wall Street tycoons quietly express disquiet over its gargantuan size. BlackRock has recently courted controversy in China, with George Soros accusing the firm of making a “tragic mistake” by pouring investors’ money into the country even as President Xi Jinping’s Communist party takes ever-firmer control of the economy.

Concerns over BlackRock’s heft are only going to increase in the coming years. This is the tale of how Fink became the most powerful person in global finance, a consigliere to presidents and prime ministers and with clout in almost every major corporate boardroom in the world.

Titan of finance was hardly written in Fink’s stars. He was born on November 2 1952, and grew up in Van Nuys, a nondescript neighbourhood in Los Angeles’ San Fernando Valley. His father owned a shoe store while his mother was an English professor at California State University’s Northridge campus. Larry didn’t do as well academically as his older brother so he had to help out at his father’s shop — a chore his more gifted sibling was exempted from.

Fink drifted into a political theory degree at UCLA. Aside from some basic economics he did no business studies until his senior year, when on a whim he signed up for some graduate classes in real estate and got hooked. But the property-developer dream faded after an MBA at UCLA’s business school. Like many bright young men of the time without a firm idea of what they wanted to do except make money, Fink strutted off to Wall Street, long-haired and sporting a turquoise bracelet given to him by his high-school sweetheart and future wife Lori.

He had several offers from top investment banks, but to his chagrin flubbed the final interview with Goldman Sachs. “I was devastated, but it ended up being the blessing of blessings,” Fink tells me. Instead, he went to First Boston, another pedigreed firm, where he started working in 1976. He was placed in its bond-trading department, and, given his real estate knowledge, was mainly trading mortgage-backed bonds. He proved a rare talent, and by 1978 was running the department. There he built a close-knit, hardworking and ferociously loyal unit around him.

Many of his team were Jewish, leading some at the firm to dub Fink’s desk “Little Israel”. In the 1970s and 1980s, Italians and Jews were still sometimes held at arm’s length at WASPier Wall Street firms like First Boston. He recalls his manager telling him to hire a “wop” — a racial slur referring to a person of Italian heritage — to work on the desk when everyone else was off for the Jewish holidays.

This turned out to be a working-class Wharton graduate from Monticello named Robert Kapito. But when Rosh Hashana arrived, it emerged that Kapito was as Jewish as the rest of the desk. Despite the awful, casual xenophobia of the era, Fink loved it at First Boston, which was at its core scrappy and meritocratic. The reality was that no one cared who you were, as long as you made money. And Fink made money.

Although he was more cerebral than many bond traders, Fink’s ego grew in tandem with his success, and his cockiness grated with some colleagues. “I was a jerk,” he once admitted to *Crain’s*, the business paper. Nonetheless, Wall Street loves success more than modesty. Fink became the youngest managing director in First Boston’s history. At just 31, he was made the youngest member of its management committee. The sky seemed the limit.

But then the sky came crashing down. “My team and I felt like rock stars. Management loved us. I was on track to become CEO of the firm,” Fink later recalled in a speech. “And then . . . well, I screwed up. And it was bad.”

In 1986, Fink’s desk suddenly lost about \$100m when interest rates unexpectedly fell and the hedges his team had put in place to protect themselves against such a scenario fizzled. Despite the money Fink had made at First Boston in the preceding decade, he went from CEO-in-waiting to outcast, until he eventually quit in early 1988.

Nonetheless, the lessons of that humiliation proved invaluable. Some years earlier, Fink had become phone pals with Ralph Schlosstein, an investment banker at Shearson Lehman Hutton. Both were early risers, and would often call each other around 6.30am to chat about financial markets before the morning hubbub started. One evening in March 1987 they happened to be booked on the same flight from Washington to New York, so they had dinner together. It proved pivotal.

Both were Democrats — Schlosstein had been a Treasury official in the Carter administration before heading to Wall Street — but mostly they talked about dissatisfaction with their jobs and a hunger to start something new. They started

sketching out plans for a company that would model financial securities, aggregate them into a portfolio, and better analyse all the risks they contained.

Today, BlackRock's profit margins are fatter than those of Apple or Google, and its stock market valuation is about \$126bn

A few days after he formally resigned from First Boston, Fink invited a select group to his house to discuss the new venture. From First Boston came Kapito, Fink's right-hand man on the mortgage trading desk; Barbara Novick, the formidable head of portfolio products; Ben Golub, a maths wizard who had designed many of the bank's risk-management tools; and Keith Anderson, one of First Boston's top bond analysts. From Shearson Lehman, Schlosstein brought Susan Wagner and, later, Hugh Frater, two of its smartest mortgage bond specialists. Together, they resolved to start a new bond investment firm built on modern technology and sounder risk management.

They still needed money to launch, so Fink dug out his Rolodex. He got in touch with Steve Schwarzman and Pete Peterson, two former Lehman bankers whose firm, Blackstone, was on its way to becoming a rising star of the private equity industry. Blackstone agreed to house the new venture in its offices and bankroll it with a \$5m loan, in return for a 50 per cent stake. Given Blackstone's emerging brand, Fink and Schlosstein decided to hitch their ride to it, naming their new company Blackstone Financial Management (BFM).

Up and running, they made their first hire, Charlie Hallac, one of Golub's former colleagues at First Boston, and set about trying to win clients, both for a new fixed income fund and the supporting technology service that Golub and Hallac were building. This was envisaged as a cutting-edge solution that would help people avoid the debacle that had befallen Fink at First Boston. It was dubbed the "Asset, Liability, Debt and Derivative Investment Network," or Aladdin. The first version was coded on a \$20,000 Sun workstation wedged between their office fridge and coffee machine.

BFM enjoyed a strong start, thanks to its gold-plated connections. Within its first six years, the firm managed about \$23bn, and the eight founding partners had been joined by about 150 employees. The bond market was on a roll, and pension plans were attracted by the pedigree of Fink and his team.

Yet the company was heading towards a dramatic rupture with Blackstone. Fink had enticed many new hires by offering slices of equity — something that gradually diluted Blackstone's ownership and angered Schwarzman. Frustrated, Fink eventually resolved that BFM and Blackstone needed a divorce.

All BFM's funds had tickers — a code that identifies investment vehicles in regulatory filings and data providers — that started with the letter B. But an agreement with Blackstone stipulated that the new name could not include the words "black" or "stone". Bedrock was considered, but made too many people think about The Flintstones. However, the founders loved the name "BlackRock". They appealed to Schwarzman and Peterson, pointing out that Morgan Stanley's 1930s split from

JPMorgan burnished both firms. Peterson and Schwarzman were tickled by the idea of BlackRock as an homage to Blackstone, and blessed the new name.

In 1994, Blackstone finally sold its stake in BlackRock for \$240m to PNC Bank in Pittsburgh, which folded all its own money management operations into BlackRock and eventually listed it on the stock market. A long-mooted initial public offering finally arrived on October 1 1999, by which time BlackRock's assets under management had vaulted to a hefty \$165bn.

But the IPO bombed. The listing arranged by Merrill Lynch valued BlackRock at just under \$900m — much lower than expected. Fink was tempted to scrap the whole thing, but Merrill's chief executive David Komansky called and didn't mince his words. "What the fuck are you doing?" he yelled at Fink. "Just do the IPO. If you do your job well over the next four to five years, it will be a distant memory. Just do the fucking IPO now. Don't be a fucking asshole."

Once the dotcom stock market bubble burst, BlackRock's bond-oriented business shone brighter, attracting investors looking for stability and fat, steady fees. That meant it could now use its own shares as currency with which to buy rivals, growing through acquisitions rather than by just banging on the doors of clients or starting new teams from scratch. The history of the investment industry is riddled with acquisitions gone awry, but BlackRock used its listing to transform itself from a narrow bond investment house into the world's biggest money manager.

The first deal came in the summer of 2004, when BlackRock bought State Street Research, a money manager owned by insurer MetLife, for \$375m. But the first truly transformational deal arrived a few years later.

In 2006, the well-connected Fink learnt that Merrill Lynch's new CEO Stan O'Neal was open to the idea of selling the investment bank's sprawling money-management arm. Intrigued, he arranged breakfast at 3 Guys, a restaurant on the Upper East Side. Within 15 minutes the two had the contours of a deal, signing the menu to commemorate a provisional agreement. Together, BlackRock and Merrill Lynch Investment Managers would constitute a colossus with almost \$1tn of assets under management.

MLIM executives were divided on the acquisition. Some were relieved to be part of a more dynamic, standalone asset management company after Merrill's long neglect. Others chafed at what they perceived as BlackRock's arrogance. Although the diplomatic Schlosstein was tasked with leading the integration, Kapito in particular rubbed many people up the wrong way. Some former executives compare him to Mike "Wags" Wagner, the aggressive but loyal hatchet man of fictional hedge fund manager Bobby Axelrod in the TV series *Billions*.

Nonetheless, Fink has remained resolutely loyal to Kapito, for good reason, according to even some of his detractors. They highlight his "maniacal" focus on efficiency as a key reason for BlackRock's rise, and attribute some of the animus towards Kapito to the fact that unpopular decisions often fall to him, allowing Fink to rise above the

fray. When it boils down to it, they are the inseparable yin and yang at the heart of BlackRock, the tall, bespectacled Fink — who loves schmoozing and grand strategy — and the aggressive, uncompromising master organiser Kapito.

“The biggest mistake you can make at BlackRock is believing you can ever play one off against the other. There’s not a photon of daylight between them,” observes one former BlackRock executive. “Rob would be wholly unsuccessful without Larry, but what people don’t realise is that Larry would probably be wholly unsuccessful without Rob. The two of them are like salt and pepper shakers. They are very different, but they go together.”

Fink’s mettle was tested soon after the MLIM acquisition. He initially downplayed the wider dangers of the subprime housing problem when it started to emerge in early 2007, telling the FT that the market was under “a lot of stress” but that he didn’t see it exploding into something “meaningful and more destructive to the overall housing market”. A BlackRock investment in New York’s Stuyvesant Town-Peter Cooper Village ended up an embarrassing disaster. Yet the firm navigated the ensuing mayhem better than many other investment groups, thanks partly to the growth of its “Solutions” business, which had expanded far beyond just offering Aladdin to outside clients.

Its expertise in analysing complex structured bonds had first been established in 1994, when General Electric asked it to value the assets on the balance sheet of [Kidder Peabody](#), the venerable but struggling brokerage firm it owned. By the time the financial crisis erupted, the Solutions unit was a fully fledged financial advice group with deep expertise in the plumbing of markets.

Everyone from Wall Street rivals to foreign central banks and the US government itself clamoured for help in analysing the toxic securities that had nearly brought the system crashing down. “When we did Kidder Peabody, it was an X-ray machine,” Rob Goldstein, a senior BlackRock executive, once told the FT. “When we had the opportunity to work on the most recent crisis, it was an MRI machine.”

BlackRock’s prestigious mandates to help the US Treasury and the Federal Reserve sort out the detritus of the financial crisis prompted complaints about the company’s proximity to power. The expanding reach of Aladdin also [unnerved some regulators](#), who would go on to become increasingly concerned about so many different investors using the same risk-analysis platform, and whether that might lead to a dangerous uniformity of views. But it was the 2009 deal to acquire Barclays Global Investors, and the supercharged growth that followed, that propelled Fink to the top of Wall Street.

Behind the scenes, the acquisition of BGI was fraught. Over in San Francisco, where BGI was headquartered, the rank-and-file view was that BlackRock consisted of a bunch of knuckle-dragging Wall Street bond traders who had built their business through acquisitions, not through the West Coast innovation, collegiality and brilliance that they thought was their hallmark. Ensuring that the biggest deal in asset management history didn’t end up a monument to hubris was a daunting task.

“It made us a truly global firm, but it also crossed a Rubicon in the industry,” says BlackRock’s Mark Wiedman, who handled the integration, referring to the combination of BlackRock’s traditional “active” investment strategies and BGI’s dominant focus on “passive” index funds. “This ignited deep, intense theological debates paralleled only by the wars of religion in the 16th century,” he jokes.

All told, the full integration took about [three difficult years](#). Insiders estimate that well over half of BGI’s top executives were fired or left over the period. “It was an extraordinary exercise in the Machiavellian method,” observes one former BGI executive. “The prince [Fink] needed all the barons to commit to total loyalty, and basically killed off all the barons that wouldn’t do so.”

Nonetheless, the BGI purchase has proved a stunning success story in an industry that has more M&A debacles than there are car crashes in the *Fast & Furious* movie franchise. Its dominance is largely thanks to BlackRock supercharging BGI’s existing franchise of [index funds](#) — passive investment vehicles that simply track a market benchmark such as the FTSE 100 or S&P 500. BlackRock has, in effect, done for investing what Henry Ford did for the car, constructing a financial assembly line that churns out products for investors more efficiently than virtually anyone else.

In June 2014, the prized iShares ETF business crossed the \$1tn mark, which Wiedman celebrated with a party in London where he wore a “trillion-dollar suit” made from dollar-bill-patterned cloth, according to people familiar with the matter. Even that landmark is now a distant memory. Halfway through 2021, the iShares unit alone was managing [more than \\$3tn](#).

Today, BlackRock’s profit margins are fatter than those of Apple or Google, and its stock market valuation is about \$126bn, more than Goldman Sachs and greater than the combined values of its competitors TRowe Price, Franklin Templeton, Invesco, Janus Henderson, Schroders and State Street.

The billionaire property investor Sam Zell has what people in finance sometimes refer to as “fuck-you money” — wealth so vast they can pretty much do and say whatever they like. In January 2018, Zell took advantage of that to unload on BlackRock’s founder.

“I didn’t know Larry Fink had been made God,” [the irascible Zell told CNBC](#), complaining about the rising power enjoyed by big index fund providers over swaths of the equity market. “I just wonder whether America is really ready for Vanguard and BlackRock to control the New York Stock Exchange, because that’s what’s happening,” he added.

BlackRock, Vanguard and State Street are by some distance the world’s biggest purveyors of passive, index-tracking investment vehicles, whether traditional benchmark-hugging mutual funds or ETFs that can be bought and sold throughout

the day. The inexorable shift towards such funds has handed the industry's so-called Big Three [enormous sway in many corporate boardrooms](#).

Lucian Bebchuk of Harvard Law School and Scott Hirst of Boston University estimated in a 2019 paper titled [“The Spectre of the Giant Three”](#) that the trio's combined average stakes in the 500 biggest listed US companies had vaulted from about 5 per cent in 1998 to over 20 per cent.

Their real power is even greater — and growing. Given that many shareholders don't actually bother to vote at annual meetings, BlackRock, Vanguard and State Street now account for about a quarter of all votes cast on average, which will rise to 41 per cent over the next two decades, the academics estimated. John Coates, a Harvard Law professor, has called this rising concentration of economic power “a legitimacy and accountability issue of the first order”.

In reality, calling it the Big Three is a misnomer. State Street's inclusion is the legacy of its invention of the [ETF](#), and its size and growth rate is far more modest than BlackRock or Vanguard's. In practice, there is an emerging duopoly, and BlackRock's pole position — and Fink's willingness to throw its left around more than Vanguard — has made it a target across the political spectrum.

Early last year, Fink announced that BlackRock would put sustainability at the heart of its investment decisions, embracing the industry trend of taking environmental, social and governance (ESG) issues into account. But for those on the left, BlackRock's vows didn't go far enough. Even BlackRock's own former sustainability chief, Tariq Fancy, has lambasted the ESG trend as [“marketing gobbledegook”](#). Fancy argues that efforts such as BlackRock's are actually harmful, as they distract from the real work needed to address the climate crisis. Meanwhile, some on the right have made it a target too. US Senator Marco Rubio recently [proposed a bill](#) aimed at arresting the wave of ESG-oriented investing.

Fink argues that taking ESG into account is simply good stewardship of clients' money, given the climate crisis. He also tells me that despite the size of BlackRock and its biggest rivals, asset management remains less concentrated than many industries such as technology or retailing. If there was consensus that his firm's size was having a deleterious effect on corporate governance, he says he could address it by divvying up holdings into separate, smaller legal entities, each with their own research and stewardship teams. “If society believes this is going to be a big issue, it is solvable,” Fink says. “And I could still provide transparency, convenience and [low] pricing.”

Yet even among some fellow financiers there is muttering about BlackRock's growing influence.

A host of former government officials work at BlackRock, and others have departed for [plum jobs in the Biden administration](#). To some critics, BlackRock is [the new Goldman Sachs](#), the investment bank once so influential it was sometimes labelled “Government Sachs”.

Does this mean that Fink's reign at the top of the financial ecosystem is in peril? Barring an epic shift in the political or financial winds it is hard to see what could throw BlackRock's growth into reverse, and those who know Fink do not sense he is slowing down. Now that his dream of someday becoming treasury secretary has faded, given Washington's bipartisan distaste for Wall Street tycoons, Fink could end up keeping his hands on BlackRock's tiller for years to come.

When he gave a [commencement speech to UCLA students](#) in 2016, Fink revealed how the First Boston setback scarred him. "I believed I had figured out the market, but I was wrong — because while I wasn't watching, the world had changed." The timely acquisition of BGI was a sign that he understood better than most how the investment industry was changing. He will need that nous more than ever as BlackRock juggles a host of interlocking but disparate challenges in the coming decade, from growing US-China tensions to climate change and the increasingly polarised sociopolitical landscape in the US.

Even some of those who have fallen foul of his empire-building say that Fink is probably up to the task. But of the eight founders, only Fink, Kapito and Golub now remain in management, and past and present insiders wonder what will happen once Fink eventually leaves the company he founded just three decades ago.

"Larry was astonishing on the level of details he knew. I don't like him, but he's a phenomenal businessman, and he lives for BlackRock," observes one former senior executive. "When he leaves it will be like when Alex Ferguson left Manchester United . . . It is impossible to overstate how BlackRock's journey is the journey of a single man."