Goliath and Goliath: Asset Management and Ownership in the UK Economy

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Glossary of Key Terms

Beneficiaries: The group or individual to which the assets being invested belong, and on whose behalf financial intermediaries carry out investment activities. E.g. pension holders.

Bond: A type of fixed income investment that effectively represents a loan from the investor (lender) to the entity that issued the bond (borrower), such as a corporation or government. Unlike formal bank loans, however, bonds are a security that can be traded on exchanges, and don't generally carry the same restrictions for the issuer as a bank loan might, such as collateral or restrictions on further borrowing.

Equity: A type of investment that involves purchasing shares in an entity (e.g. a company). Equity investments may be publicly listed securities, such as stocks on stock exchanges, or 'private', where negotiations occur privately between parties and not via a public exchange. Unlike bonds, equity gives investors ownership and an interest stake in a company, and also in most cases formally entitles them to influence how it operates e.g. through shareholder voting rights. It may also entitle shareholders to benefits like dividends.

ESG (Environmental, Social, Governance): An increasingly popular investment strategy where asset allocation takes into account ESG factors such as companies' carbon intensity, labour practices, corporate governance etc., typically based on ratings in various categories. Ratings/scores may come from in-house research, index providers, or specialist consultancies.

Exchange Traded Funds (ETFs): In contrast to mutual funds, ETFs are traded on exchanges rather than purchased directly from the company providing the fund (the asset manager). This means shares in the fund are traded directly between investors, rather than via the fund manager. ETFs tend to be passively managed.

Fixed income: A type of investment that generates income for their holders over fixed periods of time, such as periodic interest on a bond. Bonds are the most common form of fixed income investment.

Greenwashing: The use of misleading claims or falsehoods pertaining to a company or product's 'green' credentials for marketing or branding.

Mutual funds: Funds are pooled investment vehicles, which purchase securities on behalf of the investors who buy into the fund. Mutual funds are typically purchased from the fund management company itself.

Passive management: An investment strategy whereby funds 'track' indexes that represent a specific market, industry, and/or purpose such as the S&P 500 or the S&P Global Clean Energy Index (which tracks companies engaged in clean energy production) with the aim of replicating the level of return of the index as a whole. Considered 'passive' because asset allocation is determined by the index rather than the stock selection done by active fund managers.

Securities: A tradable financial instrument, such as a stock or bond.

1 Introduction

In the 1980s, the Reagan and Thatcher governments in the US and UK, respectively, championed the idea of a 'shareholder democracy.' According to the ideal, policies to promote asset ownership, whether property or shares, alongside the liberalisation of financial markets would supposedly distribute ownership of the economy throughout the population rather than just among the wealthy,[1] giving us all an interest and a say in its operations and thereby ensuring better economic outcomes.[2] However, the shifts in ownership that have transpired since have moved the economy significantly farther away from a system resembling 'democracy'. Instead, the past several decades have been marked not only by an increasingly myopic and often destructive fixation on 'maximising shareholder value', but crucially also the steep concentration wealth, as well as of ownership and governance rights in the economy within a handful of vast asset management firms.

Asset managers are financial intermediaries, who formally hold stocks or bonds on behalf of those whose assets they invest. The asset management industry has seen explosive growth over the past twenty years, with global assets under management trebling from US$35 trillion at the start of millennium to over $100 trillion by the end of 2020.[3] Estimates suggest there are no signs of this growth slowing as the industry - which is currently comparatively overrepresented in high-income regions such as Europe and North America - expands in other economies around the world.[4] Importantly, this central element of the financial system is increasingly dominated by a small number of massive firms who have grown rapidly not only in absolute terms in recent years, but which have also seen their relative share of the asset management sector swell.[5] This briefing – which introduces Common Wealth's programme of work on the future of the sector - explores the implications of this rise and concentration in assets and, by extension, economic power, setting out key questions for policymakers, particularly with respect to this industry's growing role in our response to global challenges, from ensuring a strong and fair Covid-19 recovery to tackling the climate crisis.

2 The Age of the Asset Manager

Within asset management, the essential trend of the past two decades has been not just growth, but concentration. In the US, the so-called 'Big 3' asset management firms – BlackRock, Vanguard, and State Street – together manage $20 trillion in assets, a full fifth of the $100 trillion managed by the industry worldwide,[6] and within the rapidly growing 'Exchange-Traded Fund' (ETF) market in particular, they control an astonishing 80 percent of US market share.[7] The Big 3 rode to their position of prominence on a wave of interest in "passive investing", a type

of investing in which the contents of funds are determined by indices that follow 'objective' criteria such as market capitalisation or industry, rather than based on individual manager discretion. Though the trend toward passive investing was slower to take off in the UK than in the US, it has recently started to accelerate, and with it, the large US passive managers have staked new claims in the City of London;[8] as of last year, BlackRock was the second largest asset manager in the UK.[9]

At the time that the idea of the shareholding and property-owning democracy was birthed politically, share ownership in publicly listed companies was still highly diffuse, with even the top holdings of the largest pension funds typically holding no more than 1 percent of a company as recently as 1990.[10] Today, the Big 3 dominate global financial markets: in the US, one of the Big 3 firms is the largest shareholder in 495 out of the 500 S&P 500 companies, a basket comprising the largest US corporations, which includes everything from Exxon to Tesla, and Pfizer to Facebook. Together, they control a staggering 20 percent of the average company in this index,[11] and a recent study suggested this ownership concentration could double to 40 percent within the next 20 years.[12] While a collective 20 percent stake may not sound high in absolute terms, with respect to the ownership of publicly listed companies, this level of concentration is immense. As noted above, as recently as the 1990s, the largest stakes of the largest public pension funds tended not to exceed even 1 percent of overall share capital, and "dispersed share ownership was a hallmark" of the American economic system.[13]

Within the prevailing structure of dominant shareholding by asset management intermediaries, although income rights (for example, to dividends) generally remain with the individual beneficiary, there is now a significant dislocation of the voting rights and decision-making power that come with share ownership from those whose assets are ultimately being invested (i.e. individual savers and pension holders). This dislocation compounded with increasing concentration within the asset management industry is reshaping how much of the economy is organised and governed, and whose interests it serves. It also increasingly influences how we respond to global challenges, with the marks of the asset management giants increasingly found in the contours of policy responses, including to Covid-19. For instance, BlackRock was awarded the role of allocating the US Federal Reserve's asset purchase programme – an emergency measure in response to the pandemic's economic impact – prompting some to argue the firm must now be understood as a "fourth branch of government."[14] BlackRock allocated a significant amount of the funds to its own ETFs, with the company's funds occupying 8 of the 15 different funds used to purchase corporate debt.[15]

Crucially, the concentration of share ownership in the economy holds significant implications for the idea of a democratic economy. In addition to the right to a proportionate share of profit distributions (i.e. dividends), holding shares in a company entitles the holder to voting rights at the company. These rights entitle shareholders to participate in filing and voting on shareholder resolutions at a company's annual general meeting (AGM), such as a resolution demanding that a company establish decarbonisation targets or change its governance. A state of highly concentrated share ownership thus endows elite firms with huge influence over the investment decisions and actions of many of the world's corporations. For instance, shareholder activist organisation ShareAction found that in 17 resolutions related to climate change at various companies which failed, a change to a positive vote from just one of the Big 3 would have enabled the resolution to pass.[16]

However, the sway held by a handful of organisations could be seen as a potential avenue for change within the context of a growing 'shareholder engagement' movement, wherein investors profess to use their stakes in companies to push for change, and which has become aa popular strategy for firms eager to respond to growing demands for environmentally and socially conscious investment practices. Despite the popularity of the engagement approach, however, even by the industry's own metrics, it is failing to generate substantial change: a recent publication by the Climate Action 100+ - a US$54 trillion engagement coalition comprised of the world's largest asset managers, including BlackRock – found that within the cohort of companies in their target list for engagement, 99% are still failing to meet basic thresholds for lobbying activities and capital expenditures related to the climate crisis.[17]

While the reasons for this striking lack of progress are uncertain, it may be that corporations' failure to respond to routine engagement practices (which often occur behind closed doors between the representatives of firms) reflects the structure of asset manager capitalism. That is: in contrast to the shareholding democracy's image of an actively engaged shareholder committed to maximising the performance of the specific companies in which they are invested, as Braun argues, the incentive structure of contemporary asset manager capitalism is one of accumulating further assets. The shift to an 'asset manager capitalist' system thus generates a distinct set of logics and behaviours. First, asset manager revenues are based not on the financial performance and payouts of individual companies in which they are invested, as is the case for individuals who may hold shares in a handful of corporations, but based on the overall size of the pool of assets they manage. Second, ownership stakes within the economy have shifted toward large financial intermediaries who, crucially, tend to be 'universal owners', meaning they are invested in stocks, bonds, and other assets throughout the entirety of the economy with respect to both industry and geography.

Thus, asset management firms are concerned far less with the performance of any particular company, and much more with overall performance and growth of their assets under management as a whole – the metric upon which their fees are based. Under these conditions, with the control rights afforded to intermediary asset managers by stock ownership dissociated from the actual owners of the assets (end beneficiaries), serious questions must be raised about a model of corporate governance predicated overwhelmingly on the interests of shareholders, at the expense of other stakeholders.[18] And, as outlined in the following section, this structural dislocation from individual companies' actions is compounded by the rise of passive investing.

3 Passive Ownership & Activist Shareholders

The growth of the US-based Big 3 has been propelled in large part by the rise of 'passive investing', an investment strategy whereby the choice of contents and their relative distributions in a portfolio are decided not by individual or team of managers, but by a pre-constructed index. Rather than trying to 'beat' the returns of the market, these types of funds invest in all or a representative sample of the securities included in an index to track its performance. For example, the S&P500 is an index representing the 500 largest US companies by market capitalisation, and funds tracking this index commit to replicating the performance of this basket of companies, rather than beating it through active stock picking.

Index-tracking (passive) investment funds became highly popular following the 2008 financial crisis, and their share of assets has soared over the past decade.[19] There are several likely reasons for this, including lower fees than available in traditional 'actively' managed options and consistent performance relative to their active counterparts,[20] providing safety and often higher returns in the wake of the crash that has appealed enormously to individual and, increasingly, institutional investors. In the US, passive funds now represent more than half of all mutual fund assets[21] and 60 percent of trading activity,[22] and worldwide assets in passive funds (either mutual or ETFs) surpassed US$12Tn this year.[23]

Institutional asset owners such as pension funds are also increasingly allocating funds to passive strategies, with pensions expected to shift assets to passive investments at a rate of 6 percent per year over the coming decade.[24] As of 2019, one third of global pension assets were invested passively.[25] In the UK, 2019 data from the Financial Times suggested that while the passive market has been slower to take off than in the US, it is rapidly growing, with inflows in 2019 doubling those of the previous year.[26] Importantly, the increasing dominance of US-based, primarily passive fund managers like BlackRock in the UK market has been a major driver of this growth, at the expense of the UK's traditionally active focused companies, many of which have seen significant outflows in recent years.[27]

The turn toward passive investing continues to prompt mixed responses, with researchers noting risks to financial stability amid amplified market swings,[28] as well as a concerning tendency for the major passive investment firms to vote overwhelmingly in line with corporate management on shareholder resolutions (including, saliently, those related to the climate crisis).[29] The prevalence of index-tracking funds has also been argued to underlie Elon Musk's sudden (if temporary) ascent to the position of world's wealthiest man in 2020, as Tesla was added to the S&P500 index, prompting US$70 billion of investment from funds tracking the index, and inflating the company's share price.[30] Others, however, have pointed out that due to their being premised on maintaining consistent and stable long-term returns that keep pace with stable, long-term market growth, passive funds could be considered "uniquely

long term" investors.[31] From this perspective, passive strategies could be harnessed to create a break with the short-term thinking that many have identified as a core problem in economic behaviour and decisions,[32] with significant implications for how the financial system might relate to systemic risks like climate breakdown.

4 Asset Manager Capitalism in the United Kingdom: Goliath and Goliath

While much of the literature on 'asset manager capitalism' and the rise of the 'Big 3' has, for good reason, focused on the US context, the UK and indeed many major economies around the world have not evaded these trends – nor their impacts. The programme of research launched by this brief essay aims to address this gap, applying the pioneering work of academics and organisations from the US context to the changes and challenges inherent to the contemporary UK economic model, and exploring new frameworks of analysis to understand the dynamics which now shape our economy and the interests it serves.

As a preliminary survey of the state of asset ownership in the UK, we analysed the distribution of shareholders in the FTSE100 companies (the 100 largest companies listed on the London Stock Exchange by market capitalisation) over the past decade. Examining this distribution at two distinct points in time – from the start of 2011 to the end of 2020 – we identified several trends suggesting that American asset manager capitalism, and the concentration of ownership it entails, is taking root in the UK. In particular, our analysis found a system increasingly dominated by a 'Big 2' - the twin Goliaths of BlackRock and Vanguard.

As an initial measure of concentration, we examined the total fraction of a company that is controlled by the 10 largest shareholders in that company. Our analysis found that while the share of the average FTSE100 company controlled by the Top 10 investors rose moderately from 2011 to the end of 2020 from 36 percent to nearly 40 percent, the occupants of the top shareholder cohort have changed markedly, with the major American managers significantly growing their ownership stakes and even supplanting the UK's premier (and traditionally actively managed) asset management firms, including Legal & General and Schroders. Indeed, the collective stake held by the 'Big 3' in the average FTSE100 company has nearly doubled over the past decade from 7 percent to 12 percent, while Legal and General's average stake has more than halved to just 1.4 percent. BlackRock and Vanguard together now control 10% or more of roughly two thirds of the FTSE100 companies.

Legal & General was a Top 10 shareholder in 100 of the 102 stock listings[33] in the FTSE100 index in 2011, but that number had fallen to just 57 by the end of 2020. Over the same period, American passive investing giant Vanguard rocketed from its position as a Top 5 shareholder in 0 and a Top 10 shareholder in just 5 FTSE100 listings in 2011 to 61 and 98, respectively, at the end of 2020 – the highest number of any firm, including BlackRock, which takes a Top 10 spot in 94 firms. When looking even more narrowly at the Top 5 shareholders in a given firm, Legal & General plummeted from its Top 5 position in 66 firms as of 2011 to just 12 as of Q4 2020. BlackRock alone is the *number one* shareholder in 41 of the FTSE100 firms, with a 5% or greater stake in 38 of these.

The data shows BlackRock has been fairly dominant for longer than the 10-year period considered in this analysis, with its average FTSE stake rising by a moderate 1 percent over the past decade. Looking back farther to the start of the millennium, however, BlackRock was the top shareholder in just 6 FTSE100 firms, compared with the 41 companies for which they now occupy the top slot. Vanguard, on the other hand, has seen fast growth in its share ownership of UK companies over the past decade; the firm's mean stake in a FTSE100 company grew by 6-fold to an average of 3 percent by the end of last year, just under half that of BlackRock. State Street moved from a very small average position (0.1 percent in 2011) to an average 1.5 percent stake by 2020, to roughly rival Legal & General.

Overall, our initial analysis suggests that, rather than the 'Big 3' often used to describe the state of ownership distribution in the United States, the situation in the UK is very much a story of the 'Big 2': BlackRock and Vanguard. Importantly, these two firms represent the world's leading passive investment providers; their rapid rise to dominance - corresponding with a fall in the aggregate percentage of FTSE 100 holdings of the primarily actively managed Legal & General – therefore raises questions about a changing landscape of corporate ownership and control in the UK, which will be explored further through the programme of work launched today.

The following table summarises select key data for these four firms over the past decade:

Firm Name	Mean Stake in FTSE100 Company		Aggregate % of FTSE100 Market Capitalisation Held (Rank)*		No. of companies where a Top 5 Shareholder	
	2011	2020	2011	2020	2011	2020
BlackRock	6.3%	7.3%	5.9% (1)	7.3% (1)	70	85
Vanguard	0.5%	2.9%	0.48% (10)	2.9% (2)	0	61
State Street	0.1%	1.5%	0.06% (33)	1.5% (3)	0	0
Legal & General	3.2%	1.4%	3.0% (2)	1.3% (4)	66	12

*Rank refers to the fraction of the FTSE100 Market Cap controlled by a given firm i.e. BlackRock, with 7.3% of total FTSE100 Market Capitalisation, is the #1 FTSE100 shareholder by value held.

Note on methodology: all figures are derived from publicly available disclosures and the Refinitiv database. Names used in this report (e.g. BlackRock, Legal & General) refer to the financial group, which may be made up of several subsidiary companies (e.g. BlackRock UK, BlackRock Institutional Trust Co.). The holdings of each subsidiary company are summed to

arrive at a final figure reflecting the value of the group's shareholding as a whole.

Conclusion: Managing our Futures

With the world currently woefully off-track for meeting the existential task of limiting warming to 1.5⁰C, there is an urgent need to shift the trillions of dollars of private finance and investment away from destructive and high emitting economic activity, and toward rapid decarbonisation and environmental restoration. However, in the rush to do so, it's imperative that mechanisms for generating investment in climate mitigation and adaptation are both *effective* - meaning they actually contribute to shifts in real economic activity – as well as contribute to building an economy that is more equitable, democratic, and sustainable by design. This is not just desirable, it is necessary. Studies continue to underscore the indissoluble relationship between inequalities of wealth and power and soaring emissions and resource use.[34] Current distributions of consumption, emissions and economic power are fundamentally incompatible with a sustainable future, and guarantee the continued extraction of resources and land from Global South communities at a devastating scale in order to maintain the activities of comparatively wealthy countries, including the UK.

The preliminary findings above provide an indication that – while still less pronounced than in the United States context – concentration within the asset management industry is nonetheless present to a non-trivial degree in the United Kingdom, and increasing rapidly even over the brief period and within the relatively small fraction of the UK economy considered in this analysis. As the climate crisis accelerates, inequality is further entrenched by the Covid-19 crisis, and communities around the world revolt against a politics they feel is governed by corporate and financial elites, there is a pressing need to better understand, communicate and reckon with the deep shifts in ownership and control that have taken place in our economy over recent decades, with the rise of the asset manager chief among them. Over the coming year, Common Wealth will begin to address this gap in our understanding and collective strategy for change, delving deeper into the significant and rapidly growing influence of the asset management over the direction of the UK economy.

This programme of research will seek to identify not only how asset management has evolved and expanded its power in the economy over time, but will also ask what changes this may have engendered in the 'real economy' – that is, in the behaviour of the companies in which these firms invest, from AstraZeneca to BP. Over the coming months, we will be publishing a series of in-depth reports, alongside topical analytical briefings, which will:

Evaluate the progress of 'asset manager capitalism' in the United Kingdom

Explore potential relationships between macro trends in asset ownership and management and the behaviour of the real economy, with particular attention to action related to the climate and environmental crises

Map the ownership of carbon intensive industries, from fossil fuels to airlines, through the asset management system, asking not only who owns these assets, but how these distributions of ownership have changed and consolidated over time

Design pathways for transformation both within and through asset ownership and management, designing bold policies and models of ownership so that we can leverage this locus of power in our economy to build a future that is decarbonised, equal, and just.

The distribution of ownership of assets and disparities in whose voices are represented in our institutions of governance fundamentally shapes how the economy operates and in whose interests; our present architecture of ownership acts as a powerful driver of inequality, precarity, and damaging short-termism. As the asset management industry continues to grow in influence, and ownership – and by extension, economic power – continues to be concentrated within it, we need an analysis and a strategy which attends to this prevailing architecture of ownership. Our challenge is to use this analysis – and the fierce urgency of the present moment - to drive a deep institutional turn in our economic ordering toward equality, democracy, and climate and environmental justice.

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