While BlackRock is known as a large asset manager, our size says little about our structure and risk profile, our history, or how we function today. In this ViewPoint, we provide an overview of our organization and discuss the factors that differentiate BlackRock specifically, and the asset management industry more generally, from other financial institutions.

Overview
BlackRock was founded in New York in 1988 by eight partners, five of whom remain active in the firm today. BlackRock has grown from a start-up to a market leader by attracting clients and employees, and by acquiring several other asset management companies along the way.

Throughout this evolution, BlackRock has maintained its focus on managing assets on behalf of its clients, as well as providing risk management and advisory services. Clients of the firm include corporate, public and multi-employer pension plans, governments, insurance companies, official institutions, endowments, foundations, charities, corporations, banks, sovereign wealth funds, mutual funds, and individuals around the world.

**BlackRock’s mission is to create a better financial future for our clients, by building the most respected investment and risk manager in the world**

As of June 30, 2015, BlackRock manages $4.72 (or €4.25) trillion on behalf of clients. The assets under management (AUM) include cash, fixed income, equity, alternatives and multi-asset class mandates. In addition, the AUM reflects approximately $13 (or €12) billion in advisory assignments, which include long-term portfolio liquidation assignments.

BlackRock is a global firm that combines the benefits of worldwide reach with local service and relationships. Investment centers in nearly 30 cities (including New York, London, San Francisco, Tokyo, and Hong Kong) facilitate access to major capital markets. Likewise, account managers in over 70 cities across 30 countries (six in the Americas, seven in Asia Pacific, and seventeen across Europe, the Middle East, and Africa) deliver global expertise to our diverse client base.

As of June 30, 2015
- No single majority stockholder
- Independent with no majority shareholder
- $4.72 (or €4.25) trillion assets under management
- Approximately 12,400 employees
- Over 1,800 investment professionals*
- Presence in over 70 cities across 30 countries

Data as of 30 June 2015.
*As of 31 March 2015.
The Asset Management Business

Asset managers, also known as investment managers, are hired by clients to invest assets on their behalf. In this role, asset managers act as fiduciaries. Asset managers invest within the guidelines specified by their clients for a given mandate set out in the investment management agreement (IMA) or established by the offering or constituent documents that establish the fund. Importantly, the investment results, whether positive or negative, belong to the client. The “assets under management” are owned by clients. They are generally held by third-party custodians selected by, and under contractual obligation to, these clients. The custodian maintains the official books and records and facilitates trade settlement with counterparties. As such, asset managers do not have physical control or direct access to clients’ assets. Likewise, the client, not the asset manager, is the counterparty to trades. Consequently, asset managers have small balance sheets relative to those of other types of financial institutions.

Asset managers are generally paid fees for services on a set schedule based on the amount of assets under their management. This fee structure generates a more stable income stream than that of a transaction-oriented financial institution. In addition, asset managers generally have little debt on their balance sheets.

ASSET MANAGERS DO:

- Act on behalf of clients
- Rely on a generally stable fee-based income stream
- Receive regulatory oversight at both the manager and portfolio levels (in the US and EU regulatory regimes and elsewhere)

ASSET MANAGERS DO NOT:

- Invest with their own balance sheets by engaging in principal trades
- Employ balance sheet leverage
- Guarantee investor principal, nor do they offer a government guarantee or backing
- Provide liquidity for funds
- Have access to central bank liquidity

Asset Management Products

Investment strategies can be offered in a variety of structures, which can be broken down into two main categories – commingled investment vehicles (CIVs) and separate accounts.

CIVs play an important role in many clients’ portfolios. Some clients prefer these investment vehicles for the diversification they provide. Examples of CIVs include mutual funds, exchange traded funds (ETFs), collective trust funds, and hedge funds.
CIVs are typically subject to a robust set of regulatory requirements that can differ by the type of client who can invest in the fund and jurisdiction in which the fund is offered. Examples of regulatory regimes that CIVs can be subject to include the Investment Company Act of 1940 in the US and Undertakings for Collective Investment in Transferable Securities (UCITS) in the European Union (EU). CIVs are separate legal entities from the asset manager. They are typically overseen by a board of directors or equivalent (i.e. trustees or directors).

Separate accounts are individual portfolios managed for a single client – they can be thought of as a “fund for one”. The vast majority of separate accounts are long-only strategies managed for institutional investors. The client is the legal owner of the assets in the separate account, and therefore, separate accounts are subject to the regulation that the client is subject to.

What Distinguishes Asset Managers Within the Financial Industry?

Asset managers are characterized by a business model that is fundamentally different than that of other financial institutions, such as commercial banks, investment banks, insurance companies and government-sponsored entities. Asset managers are different than most other financial firms in that they act as advisors or agents on behalf of their clients. While asset managers do not use their balance sheets in the ordinary conduct of their business, other financial companies do engage in activities involving significant levels of balance sheet risk. For example, investment banks act as principal in trading, market-making and prime brokerage; finance companies access the capital markets for funds and re-lend these monies; and insurance companies provide long-term financing for real estate and other hard assets as part of their asset-liability management.

Another critical difference between a commercial bank and an asset manager is the absence of reliance on government guarantees or support. Banks accept deposits that, in the US, are then insured by the Federal Deposit Insurance Corporation and, in the EU, are obliged to participate in national Deposit Guarantee Schemes. Asset managers, meanwhile, clearly disclose to clients that investment performance is not guaranteed by the manager, the government, or any other party.

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2 US Government Accountability Office; Office of Special Inspector General for the Troubled Asset Relief Program; US Department of Treasury.
Regulation of Asset Managers

Asset managers are subject to comprehensive regulation that includes regular examinations and reporting that requires managers to establish and maintain extensive risk management and compliance policies and procedures. In the US, the Securities and Exchange Commission (SEC) is the primary regulator of asset managers that are registered as investment advisers. Asset managers that operate trust banks are overseen by the Office of the Comptroller of the Currency (OCC) if federally chartered, and by state banking authorities if state-chartered.

In the US, many asset managers are also subject to regulation by the Department of Labor under the Employee Retirement Income Security Act (ERISA) for work on behalf of certain pension plans and by the Commodity Futures Trading Commission (CFTC) if they invest client funds in commodities or certain derivatives instruments. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, introduced a host of new rules that provide for enhanced reporting, oversight and transparency for financial instruments and financial institutions, including asset managers.

In the EU, the vast majority of the legislation that underpins the regulatory environment for asset managers is agreed upon at the European level following co-decision by the EU Member States and the European Parliament. EU legislation is subsequently implemented at the national level (Directives) or applied directly (Regulations). Common European rules create the legislative conditions for the Single Market in goods and services in the EU. Similar to Dodd-Frank in the US, the European Market Infrastructure Regulation (EMIR), for example, establishes central clearing counterparties (CCPs) and trade repositories, and the proposal to revise the Markets in Financial Instruments Directive (MiFID) will include provisions that aim to strengthen investor protection and increase market transparency. In Europe, the supervision of asset managers continues to be carried out by national authorities, such as the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) in the UK, the Federal Financial Supervisory Authority (BaFin) in Germany, and the Authority for the Financial Markets (AFM) in the Netherlands. In the Asia-Pacific region, regulatory agencies overseeing asset managers include the Financial Services Agency in Japan, the Securities and Futures Commission in Hong Kong, and the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission in Australia, among others.

What Differentiates BlackRock?

BlackRock was founded as a stand-alone investment management company focused on providing asset management and risk management services to clients. The firm brings together expertise across capital market sectors, and asset allocation, portfolio management, financial modeling, and risk management disciplines. BlackRock’s fiduciary culture differentiates it from sell-side firms.

An integral part of BlackRock’s fiduciary culture is our core belief that rigorous risk management is critical to the delivery of high-quality asset management services. The firm’s leaders identified a growing gap between the sell-side and the buy-side, and had a vision for a tool that asset managers needed to prudently manage risk. Having determined that no existing system adequately fulfilled this need, BlackRock designed and built a proprietary state-of-the-art system, which evolved into the technology platform known as BlackRock Solutions®.

EMPLOYEES AT LARGEST US AND EUROPEAN BANKS AND AT BLACKROCK

Width of circle represents approximate total employees scaled to 100 as of most recent date available. Data based on financial filings. Produced on 8/10/15.

3 As of 1 April 2013, the Prudential Regulation Authority and the Financial Conduct Authority succeeded the Financial Services Authority (FSA), assuming responsibility for financial regulation and supervision.
Today, portfolio managers throughout BlackRock have access to proprietary technology which enables them to make more informed decisions. These tools can analyze individual securities, aggregate a portfolio of securities, and compare that portfolio and its risk characteristics to an index or another relevant benchmark.

In addition, BlackRock’s focus on asset management and risk management services is very different from a bank that offers deposits, loans, and other products to customers.

**Conclusion**

Asset managers act as fiduciaries, so a focus on clients is central to the business model. In recognition of this fiduciary responsibility, BlackRock has identified financial regulatory reform as a critical issue for our clients. We support the creation of a regulatory regime that increases transparency, protects investors and facilitates responsible growth of capital markets, while preserving consumer choice and assessing benefits versus implementation costs. Historically, investors’ participation in public policy debate has been limited. However, we believe the investor perspective is critical to consider. As a result, BlackRock has actively engaged in discussions with policymakers on a wide range of financial regulatory reform topics.

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**BLACKROCK SOLUTIONS**

Risk-informed investment management requires the right tools to assess security- and portfolio-level risks, to rebalance portfolios to meet portfolio manager objectives, and to process transactions efficiently. As a result, BlackRock developed an integrated suite of investment management tools designed to be used by BlackRock’s investment professionals. Starting in 2000, BlackRock began offering those risk analytics and trade processing tools, as well as advisory services, to external clients under the BlackRock Solutions® brand.

The Aladdin Institutional Business delivers our risk analysis and investment processing tools, known as Aladdin® to institutional clients including asset managers, insurers, banks, pensions, and official institutions. Aladdin allows client organizations to combine risk analytics, order management and trade processing on a single platform. This can help eliminate redundant data input across multiple systems, enhance data integrity through shared and transparent information, and increase operating efficiencies and controls. Aladdin’s risk analytics allow risk managers and portfolio managers to analyze their exposures and risks across asset classes in accordance with their own internal risk management practices and policies, as part of each client’s broader investment decision process.

The Financial Markets Advisory Group (FMA) within BlackRock Solutions advises clients in managing their capital markets exposure and businesses. FMA focuses on enterprise risk management and regulatory reporting support, complex financial modeling, balance sheet and financial strategy development and specialized asset management and transaction support services. The FMA team uses customized analytical and modeling techniques, as well as BlackRock Solutions’ suite of data management, financial modeling and risk management tools in executing these advisory engagements.

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