



“Hello.

The best way to experience Tortoise is to become a member. You'll get access to all our journalism, digital ThinkIns, podcasts and audio stories.”

—Katie Vanneck-Smith, Co-founder

Start free trial

Find out more

07 October 2019

BLACKROCK

Profit, purpose, power

Larry Fink *wants* big business to be good, but is *he* doing enough to make it happen

BY REBECCA JONES

Larry Fink, though you might not know it, is one of the most powerful people in the world – the 28th most powerful, in fact, according to Forbes.

Why this story?

Who is the 'shareholder' in global capitalism? Who has the power to pressure management to perform, companies to reform?

READ MORE



Founder and CEO of the world's biggest asset manager, BlackRock, Fink oversees more than \$6.5 trillion of the world's investments and has a personal net-worth of more than \$1 billion.

His firm manages investments on behalf of millions of people's pension savings in the US, Japan, Mexico and, increasingly, in the UK.

He has been a key adviser to President Donald Trump – in favour of tax cuts, very much not in favour of picking a trade fight with China.

Through holding massive amounts of people's money, he has an undue influence on the US economy and increasingly the world economy, the ear of governments and of corporate chief executives.

Fink, in short, is big.

more than this, though, Fink is also leading – or at least publicly so – something of a revolution on Wall Street: one that is calling on company bosses to start considering communities within their business models, as well as cash flow. In a now infamous letter to the bosses of BlackRock’s investee companies, headed ‘A sense of purpose’, Fink boldly declared: “Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”



How can investors avoid putting their money into businesses that do not match their values?

The letter, published in January 2018, was the first time an investor of Fink’s stature had publicly called for such a shift in corporate culture, and not everyone was impressed. In a subsequent interview with CNBC, billionaire property investor Sam Zell quipped that he “didn’t know Larry Fink had been made God”, while Warren Buffet later added his voice to the fray. On the specific issue of avoiding companies involved in firearms – another issue both Fink and BlackRock are vocal on – **Buffet said**: “I don’t believe in imposing my views on 370,000 employees and a million shareholders. I’m not their nanny on that.”

In January 2019 Fink tried again. He utilised his regular annual treatise to CEOs to communicate his new moral message, but this time with a twist. Headed ‘Purpose & Profit’, Fink – perhaps answering the criticisms of investors like Buffet that adhere to economist Milton Friedman’s ‘shareholder first’ doctrine argued: “Purpose is not a mere tagline or marketing campaign; it is a company’s fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits, but the animating force for achieving them.”

He concluded: “Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked.”

Some considered this a roll-back from the original message, however George Latham, managing partner of sustainable investment firm WHEB Asset Management, sees it differently: “Profit is essential to organising private capital. Clearly there is room for purpose for purpose sake, but that belongs to philanthropy. This switches the focus from profit for profits’ sake, to profit as the end result of creating value for society and the environment. The crucial thing about this is that it requires a longer-term investing lens, which means you’ll be operating in markets that are more sustainable and enduring,” says Latham.

Indeed, despite the criticisms, Fink has arguably started a movement. In August this year America's Business Roundtable (BRT) – the body representing the country's biggest companies – scrapped decades of documents concerning the primacy of the shareholder and issued a new core statement. Signed by more than 180 CEOs including Fink, it calls for “an economy that benefits all Americans”, and outlines commitments to customers, employees, suppliers, communities and then, and only then, to shareholders.

On why BRT had made the change, Jamie Dimon, chairman and CEO of JPMorgan, said: “The American dream is alive, but fraying.”

Fink and the BRT's statements have been welcomed in many areas of finance, especially within the sustainable investment community that has long been fighting for corporate system change. Mike Appleby, investment manager on the Liontrust Sustainable Investment Team – established in 2000 – is one of them: “It is a really positive move that the investment industry, including some of the biggest asset managers, are waking up to the fact that they need a purpose and realising society's expectations of them have risen to include them influencing positive change through investment.”

Indeed, such is Fink and BlackRock's enlightenment that the firm has been rushing to launch environmentally and socially friendly investment funds. In October last year, it launched what it grandly called a ‘Core Suite’ of six Environmental, Social and Governance (ESG) Exchange Traded Funds (ETFs), responsibly-invested funds which have extremely low fees to appeal to small investors – and huge institutions, particularly pensions funds.



A worker smokes a cigarette as he takes a break at a tobacco farm in Nicaragua

The funds all target a 30% carbon reduction compared to equivalent mainstream funds while also excluding tobacco and firearms, controversial weapons and companies involved in “very severe business controversies”.

In March, the firm reported it was running \$12 billion in the socially-responsible funds, a sector it predicts will be \$400 billion larger by 2028. Since then it has launched a further 11 under its iShares brand. This rush, presumably, is due to the \$24 trillion in accumulated wealth Fink, in his 2019 letter, says is expected to flow from baby-boomers to be inherited by their conscientious millennial offspring in coming years, 63% of whom told Deloitte

that the primary purpose of a business should be “improving society”, not “generating profit”.

This year BlackRock also became the first asset manager to publish the ESG ratings of companies across its entire passive investment portfolio. This just months after its vice-chairman Philip Hildebrand announced that BlackRock research had conclusively shown that ESG focused indices had matched or outperformed their main market counterparts since 2012, as had global companies that have reduced their carbon footprints the most over this period.

Not everyone buys BlackRock’s claims to be leading the industry on environmental and socially responsible investment, however. Just months after the launch of the Core Suite last year, for example, a report published by [NGO Influence Map](#) showed that BlackRock was not walking the walk – it owned more fossil fuel than any other investor, with holdings that could account for 30% of the world’s energy related Co2 emissions in 2017. It also found that close to 50% of this was in coal.

In January – just ahead of Fink’s regular annual treatise – some members of the press were also caught off-guard by a letter supposedly from the CEO that claimed BlackRock would divest from coal and take a much more active stance in voting for climate resolutions at fossil fuel company annual meetings.

The hoax, orchestrated by an activist group calling themselves the [‘Yes Men’](#), was so effective it fooled the FT: a fact that took much of the heat off BlackRock to respond to the message.

Questions have also been raised over the investments within BlackRock’s ESG products, with Influence Map finding that the BlackRock ACS World ‘Low Carbon’ EQ Tracker invests in the equivalent of 44,000 tons of coal reserves and 480,000 barrels of oil and gas, for example.



Open cast coal mining in China

Top holdings within the Core Suite are also likely to raise a few eyebrows among conscientious millennials; such as Johnson & Johnson, currently facing 13,000 lawsuits over its carcinogenic baby powder; or China Construction Bank, which has ploughed £32 billion into fossil fuels since the Paris Climate Accord was signed in 2015.

Tom McGillicuddy, a former investment manager at Barclays and founder of soon to be launched impact investing app Tickr believes the firm has some work to do here: “BlackRock’s current definition

‘sustainable’ investing is below standard. Their ESG funds contain stocks that you simply wouldn’t expect in there.” However, McGillicuddy – who is currently working on creating his own ESG funds – is hopeful for a turnaround, adding: “I think they are slowly improving on this, and will continue to do so, as they themselves learn and do more.”

Ultimately, however, actions speak louder than words – and BlackRock’s walk in the boardroom is not matching its talk in the pressroom. According to a report published by 5050climate.org in 2018, BlackRock supported only 23% of climate proposals at board meetings in 2017/18 and voted against 100% of resolutions calling for greater disclosure of corporate political expenditures. This is important – as the world’s biggest asset manager, BlackRock wields immense power. Indeed, had it voted in favour of implementing methane reduction targets at Chevron in 2018, the motion would have passed.

More recently, a report from Majority Action and the Climate Majority Project also found that BlackRock, along with fellow US investment giant Vanguard, had voted largely against key climate resolutions at energy companies.

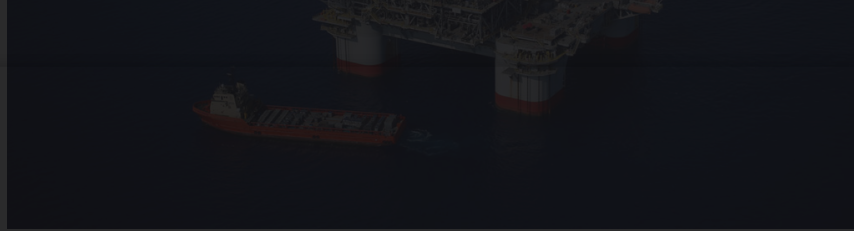
It claims that had the two firms not voted against these efforts, at least 16 “climate critical” shareholder resolutions would have passed in 2019. This included one at Exxon Mobil backed by the Church of England and the Climate100+ investor group calling for an independent chairman to be appointed, rather than the current CEO Darren Woods holding the position.

Bruce Davis, director of renewable energy peer-to-peer loan platform Abundance Investment, gives a damning indictment of Fink and BlackRock’s position: “The gap between Larry Fink’s letters to CEOs and the action demonstrated ‘on the ground’ in AGM’s crystallises the problem we face in getting finance to face up to its responsibilities when it comes to the fundamental sustainability of the investments they make.”

Appleby adds: “The areas to measure an asset manager are: has what they invest in changed; and how has the challenge they are giving to companies to improve got stronger? Given the pace of change and urgency felt by a very significant proportion of society, it looks like most of the big asset managers are massively off the pace.”

Change is not always easy, though: particularly when you are the world’s biggest asset manager and largest investor in fossil fuels. It is also challenging when you are a top provider of passive funds. A cheap, easy way to invest by spreading money evenly across markets, assets in passives have exploded since 2009 and now stand at £3.4 trillion in the US alone, where BlackRock controls 60% of the market. Passive funds are an issue for responsible and sustainable investing as they don’t discriminate. ESG passives like BlackRock’s Core Suite attempt to screen out the worst offenders, but their efforts are no match for the scrutiny of active managers that rigorously research and engage with their investor companies.





New tech is making some offshore oil supplies more viable - but not all investors want to make money from fossil fuel exploration

This contradiction was picked up by Zell following the publication of the Purpose letter in 2018: “They talk about the fact that they’re in effect going to do exactly what market does [by passive investing]. And then they put up public policy statements that suggest that they’re going to advocate the market doing things other than what happens every day. Either they’re a passive fund that follows the market or they’re a leader that’s setting the tone,” he balked. Fink did acknowledge this problem within the letter, pointing out that passive index trackers cannot sell a company while it remains in an index – which is not within BlackRock’s control. “As a result, Fink concludes, “our responsibility to engage and vote is more important than ever.”

Evidently this is not happening – indeed, quite the opposite. And as money continues to pour into passive funds and so BlackRock’s coffers, there is cause for concern: if not a rethink over how global money is invested.

Latham comments: “The issue is that because BlackRock is a universal owner of the whole market, it owns a lot of the old economy and there is an embedded challenge for passive funds which relates to that.”

In other words, how do you get around the fact that if you invest without making deliberate choices, you will end up owning a lot of stock in undesirables, such as fossil fuels, tobacco and arms dealers.

When you are a passive investor, good intentions are much easier to hold than good stocks.



Photographs Damon Winter/The New York Times/Eyevine, Getty Images



Good companies must also be good citizens. We ranked the FTSE 100 companies in our [Responsibility100 Index](#)



Future of Work ThinkIn with Fora – Is it possible for for-profit companies to be good for society, kind to their staff and gentle on the planet?

TUESDAY 22 OCTOBER 2019
DURATION: 6:00PM – 7:30PM
35-41 FOLGATE ST, SPITALFIELDS, LONDON, E1 6BX
[BOOK NOW](#)

FURTHER READING

Investing for Beginners Martin Lewis, the self-styled money saving expert, gives the basics on how to invest for those who know nothing. His guide explains the jargon and gives tips on where to start for those who have some money but aren't sure what to do with it.

Evidence-based investor Robin Powell's blog refutes much of the hype around investments and the myths that persist in the media. He believes that everyone in the information chain is conflicted in some way, pushing the public to do precisely the opposite of what they should

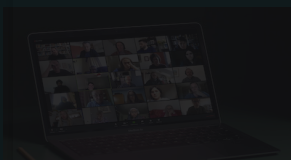
Investing with a purpose Forbes article on the growing movement towards responsible investment

Death of Retirement by Jane Fuller We will all have to work longer, but also change our mindset on saving for retirement. The entire savings system needs to be made fairer and simpler. Fuller looks at reforms of work-based pensions to encourage more people to save for a much longer retirement

This story was published by Tortoise.

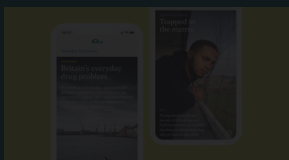


A different kind of newsroom, for a slower, wiser news.



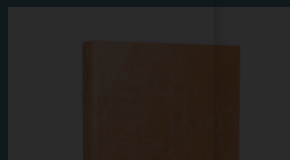
Digital ThinkIns

Take part in daily editorial discussions. Join by livestream.



Slow news feed

One long read a day. The news not as it happens, but when it's ready.



Quarterly book

A short book of long reads, four times a year.



MEMBERS SAY

“The news equivalent of dipping your head in a cool, glacier-fresh stream on a scorching-hot day”

Tom Dewar, Tortoise member

[Learn more](#)

