BlackRock Chairman & CEO Laurence Fink Reviews His Company, the World of Finance, and the Economy

Laurence D. Fink
Chairman and Chief Executive Officer
BlackRock, Inc.

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Excerpts from Mr. Fink's Remarks

How do you think the U.S. economy is doing? I would say the U.S. economy is probably the slowest-growing of G-7[1] countries today. I think there is way too much enthusiasm about the U.S. economy. It may translate into a much stronger economy, but we'll have to wait and see if the policies the Trump Administration has advocated for become effective, and quite certainly we will then see the economy accelerating.

Is it realistic that we can get a tax reform bill that takes corporate taxes down to 20 percent? Changing taxes is really hard. It's very complex. By changing the corporate tax rate and eliminating all deductions, you're going to have winners and losers. I'm sure your company will be a winner in that. BlackRock would be a winner. But there are some companies that truly pay very low double-digit taxes. And that's through all the various deductions. So there are losers there. But I think, unquestionably, lowering the corporate tax rate would be a powerful stimulus to this economy.

Do you think the United States is under-infrastructured? What has happened now across the country is we have under-invested in our infrastructure. We have over a trillion dollars of deferred maintenance now, so things are falling apart that we should be investing in just to keep them in proper [working order]. And if we want to have cities of the future, we are going to have to invest heavily in the electrification of our roads. We're going to have to invest in better pipes for broadband and all the other things that we're going to need to do to build the cities of the future. And we have no financing mechanisms for that.

We have huge pools of money in the private sector. We don't have a good history in America of having public-private partnerships, unlike other countries, because it was always cheaper to use municipal finance. Cities can't afford this anymore, and we're going to have to create a mechanism of having public and private finance for some of the big projects.

I do believe – and I'm putting my Democratic hat on now – I do believe the Build America Bonds that were created under President Obama, $181 billion were used in 18 months. Build America Bonds were a federal subsidy of 35 percent of the interest rate. But to do a Build

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America Bond, those bonds were taxable, not tax-exempt. And obviously, the rest of the municipal market is tax-exempt. So the Federal Government got most of that money back over time through people paying their interest in a taxable way.

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Getting back to tax reform, David, we need to wait and see – this is all the uncertainty that we have – what will the Trump Administration do related to the deductibility of state and local government tax? That has a huge impact on revenues for some states.

If the Republicans happen to get the health care bill as presented, much of that federal savings that they're talking about, $800 billion over 10 years, is movement of money from the federal level to state Medicaid. We're putting all the burden on the states when they have no money, they have liability problems and they have retirement issues. This is why we need, more than ever – to your question on infrastructure – why we need, more than ever, public-private partnership, because we're not going to have cities capable of financing or states financing their infrastructure needs.

One of your themes in your speeches and annual report letter is the value of long-term investing. What is your concern about short-term focus? I don't know that many people who are really good every day at calling the markets, and I don't know any company who has that ability to just pivot every second and have a long-term strategy. If you're really focusing on your clients' needs over a long horizon, you're focusing on your communities where you operate and you're focusing on your employees. I don't know how you could do that other than having a long-term strategy. But I do believe the pressures today that are resting on CEOs are pretty enormous. You have many investors who are forcing pivots and movements.

In 2012 I had an epiphany. This is two or three years after we bought Barclays Global Investors – where we bought the iShares[2] business. We became the largest index player in the world through that acquisition. And it was very clear to me that we own these stocks, these companies, as long as they're in the index. We're the ultimate long-term investor because we have to own every company that sits in an index, even if it's the worst-run company in the world – and an index has, by definition, a lot of crummy companies and a lot of good companies. So the epiphany was that we have to own these poorly run companies, so what are we going to do about it?

At BlackRock we instituted the largest corporate governance team in the world. I wouldn't call us activists, but we're actively participating, working with companies and their board. We want a dialogue throughout the year because we care about the long term. If an activist comes in and asks a company to load up on debt and buy back shares, if the stock runs up 40 percent, the activist runs; As an index owner, I still own the company. If the company is impaired going forward, most of our investors – 70 percent of our investors are pension assets – all the pensioners who are already struggling are hurt.

It was very clear to me that we have to have a loud voice on this whole concept of long term. Unfortunately, that narrative has been dwarfed by all the media that's in the room because

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they make money on the velocity of money, the clicks, and the noise, and the, "What trade do you like today?" "What do you like today?" "What's going on in Taiwan today?" And my answer is, who cares? Not that I don't like Taiwan, but the issue is, if we're investing, it's a long-horizon business.

What do you do for rest and relaxation? Are you a golfer? I've never been on a golf course... I'm actually a pretty good father and a husband and grandfather. My wife and I, we went to the same high school. We've been married now 42 years, 43 years this year. [Applause.]....Actually all eight founders [of BlackRock] are still with their original spouse. That's how boring we are. [Laughter.]

DAVID M. RUBENSTEIN: Welcome everybody, members and guests of The Economic Club of Washington, to our eighth event of our 30th season. I am David Rubenstein, president of the Club. Welcome to this dinner in the Grand Ballroom of the JW Marriott in Washington, DC.

I'm very pleased to have as our special guest this evening Larry Fink, who's the Chairman and Chief Executive Officer of BlackRock, which is the world's largest asset manager.

BlackRock is a company that today has about, I guess, 13,000 employees, a revenue of almost $12 billion. It manages $5.1 trillion and has a market capitalization of about $62 billion. Company went public in 1999. And had you bought the stock then, you would be up 26 times. And market capitalization is up about 60 times. So how many people bought stock at the IPO[3]? Anybody? It was obviously a very good buy. [Laughter.] OK. All right.

So Larry has a very interesting background. And we'll talk a little bit about his background in a moment, but he grew up in a suburb of Los Angeles. His mother was an English professor and his father had a shoe store. Larry went to UCLA[4], graduated in 1974, went to UCLA School of Management, the Anderson School, and graduated in 1976. From there he went to First Boston, and in First Boston he rose up to head up essentially their entire fixed-income department at one point, he was a member of the management committee – and then left in 1988 to start BlackRock, which was financed by the $5 million line of credit from Blackstone, but only $100,000 of that was ever used. So he basically started it with a number of other partners and grew it to the point where today it's the world's largest money manager.

In addition to running the company today, which has offices all over the world and has investors from a hundred different countries, Larry is very involved in a number of philanthropic activities. He's on the board of the Museum of Modern Art. He's on the board of the Nature Conservancy. He's on the board of the Council on Foreign Relations. He's on the board of NYU[5]. He's the co-chairman of the NYU Langone Medical Center, among other things, and on the board of the Robin Hood Foundation. So [he's] very active in philanthropic areas and obviously very successful in the business world.

[3] IPO is initial public offering.
[4] UCLA is University of California, Los Angeles.
[5] NYU is New York University.

So, Larry, when you were growing up in Los Angeles, did you ever imagine that you would be running the biggest money management firm in the entire world?

LAURENCE D. FINK: At that time, I didn't know what a money management firm did. I don't think you did either, perhaps.

MR. RUBENSTEIN: I'm still learning, but –

MR. FINK: [Laughter.] No, obviously not. I had a good childhood. It was fantastic growing up in Los Angeles in '50s and '60s, and it's been a great experience living in New York these past 40 years.

MR. RUBENSTEIN: So let's talk about the economy. You have your finger on the pulse of the economy because you manage more money than anybody else, $5.1 trillion. So when you see where the money is going, the economy is going and so forth, let's talk about the U.S. economy first. How do you think the U.S. economy is doing? What's our growth rate likely to be this year?

MR. FINK: I would say the U.S. economy is probably the slowest-growing of G-7[6] countries today. I think there is way too much enthusiasm about the U.S. economy. It may translate into a much stronger economy, but we'll have to wait and see if the policies the Trump Administration has advocated for become effective, and quite certainly we will then see the economy accelerating.

The first quarter, obviously there must be something wrong with the data because it always looks much weaker, then you start seeing it accelerate in the second and third quarter. So ultimately, we're going to have to do some type of refining of the numbers. But it appears the first quarter is going to come in less than 1 percent.

What I'm hearing from many business leaders, it's actually feeling a little worse now in April than it did in the first quarter. Much of it has to do with many people just waiting, seeing as to when or if we do have tax reform, how will that be, what does it mean for my company. There's a real disconnect. You have a surge in consumer confidence at record levels, and yet you're not seeing that translating into strong retail sales, and you're not seeing that in the behaviors of many of the business leaders.

MR. RUBENSTEIN: So when President Trump was elected, were you surprised by that election?

MR. FINK: I was as surprised as you, David. [Laughter.]

MR. RUBENSTEIN: OK. All right. Well, did you know him before?

MR. FINK: I did, yes. We were responsible for managing some of his liquidity. I had periodic

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[6] G-7 countries are the seven member states of the United States, United Kingdom, France, Canada, Italy, Japan and Germany.

lunches with him. And he was a good client.

MR. RUBENSTEIN: And did you ever think he would be President of the United States?

MR. FINK: No, but you know what? In every meeting we had, he talked about doing more. I didn't think "more" meant the President, but –

MR. RUBENSTEIN: All right. So after he was elected, the markets kind of went up a fair bit, surging; some people called it Trump rally or Trump surge. Do you think the markets got ahead of themselves a bit and the economy can't really live up to where the markets are today?

MR. FINK: I think it's a number of factors. Once again we had uncertainty going into the election. I think we actually started seeing the U.S. economy starting to do better in the third quarter, and I think the market was stalling out waiting to see with certainty who will be the President. So I think some of that was just pent-up uncertainty.

Talking about what we saw, we never saw larger pools of cash sitting on the sideline. I mean, that pool of cash is still quite large. Some of it has been put to work – but massive pools of money being put to work were sitting on the sideline.

And two, there was a general consensus that Hillary was going to win. There was an opinion that she was going to be actually adding more regulations, especially to banks. Upon the knowledge that Donald Trump was going to be our next President, you went from a fear of what it meant for the future of banks to much more opportunities with banks. So that whole sector rallied quite considerably. And that was a sector that created much of the increase in the S&P[7] and the indexes.

But one thing that is not being discussed enough, is that since the third quarter the world has gotten better. You see a stronger Europe – you have Spain growing at 2.7 to 3 percent, you have a stronger France, a stronger Italy. You have China. A year ago we were worried that China was going into a recession. The Chinese leadership was very deliberate in how they re-navigated that economy. That economy today is growing at 6.5 to 6.7 percent, and if anything, it may tick up back to a 7 percent economy. Much of it has to do with Xi's government trying to show how strong the economy is into their Party Congress in October. So, David, we're seeing growth in Canada, growth in Europe, growth in Japan, growth in China. As I said, the country that has the least amount of growth is the U.S.

MR. RUBENSTEIN: Well, let's suppose we have the growth that you project. Do you think it's wise for the Federal Reserve to increase interest rates again? If Janet Yellen called you and said, what should I do, what would you tell her?

MR. FINK: I think Janet Yellen is actually navigating this quite successfully and I don't think she needs my input. They don't call me, by the way.

MR. RUBENSTEIN: They don't call you?

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[7] S&P is the Standard and Poors 500 stock index, which gauges the performance of large-cap equities.

MR. FINK: No. [Laughter.] No, they don't call me. I have conversations but it's one-directional. They may ask me a question, but –

MR. RUBENSTEIN: They don't tell you what to think.

MR. FINK: I can't ask them, "Well, what do you think?" It doesn't happen.

Anyway, I think if you read what they've been saying, they've been very deliberate in terms of raising interest rates. They want interest rates to be normalized. And yet they have to pay attention to the strength of the dollar. That's one of the reasons I think the U.S. economy has grown less fast, and that's why Europe is growing much faster with a euro at $1.05, $1.06 and the yen at ¥110 [per USD]. So there are many reasons why our economy has slowed, and much of it has to do with currency and the currency adjustment.

I do believe they want to make sure we have a competitive currency that's not overpriced, and I do believe they don't want to have another taper tantrum where the market goes crazy. I think they want to telegraph and they want to be responsive in terms of the movements of market.

Every time they've tightened in this cycle, the market already predicted it. It was not a surprise in the market. It was very well-telegraphed, so forward markets all got to those levels.

The markets are now saying the Federal Reserve is going to do two more tightenings this year. And if you read some of the language, I think that's the path that they're going towards. But if there is continued weakness in the economy beyond the statistical anomalies of the first quarter, then they may not do the two full tightenings.

It's odd – forget about just the tightenings – one would've said the yield curve would've shifted up. Since the beginning of the year the yield curve has flattened. So that is saying we don't have an inflation problem.

So if we don't have an inflation problem, once again, if the market is correct, then she could be more deliberate, or they don't have to tighten if they don't see the justification through the data. I would say, and I said this a few weeks ago, I believe there is a high probability that rates are going to go lower than they are today because the most over-talked-about trade is rising rates. So many hedge funds have that trade on by shorting where the ten-year is – or other points of the yield curve. As of tonight we're at a 2.28 and everyone said we were going to go to a 3 or 3 ½. If anything, we've had the yield curve flattening. The ten-year is at a 3-month low right now.

MR. RUBENSTEIN: You mean they think the Fed might lower interest rates?

MR. FINK: No, they don't touch the ten-year. But the market can be saying inflation could even be less of an issue; therefore, the yield curve should be flattening. If that's the case, we're going to find out tomorrow – we have bank earnings tomorrow. Because of the election of

President Trump and because of the global economy, banks rallied more than any sector. We'll see tomorrow when you have Citi and JPMorgan's results, and next week you'll have the other banks report. You'll see – is this translating into a stronger bank earning cycle?

MR. RUBENSTEIN: What about the dollar? Do you think it's appropriate where it is now? Do you think if it goes higher we're in trouble because we can't export as much?

MR. FINK: I think that's one of the reasons why our economy is slower than we want it to be right now because the dollar is strong. But if the Federal Reserve continues to tighten and they see a reason to tighten, it's going to be hard to have a weakening currency. If we continue to see what I would call mediocre results related to our economy, then the dollar will probably weaken. But right now I would say consensus is the dollar is not going to weaken. It may strengthen.

MR. RUBENSTEIN: What about tax reform? President Trump has talked about tax reform. Do you think it's realistic that we can get a tax reform bill that takes corporate rates down to 20 percent or something like that?

MR. FINK: I do believe that's one of the structural problems of our country. It doesn't matter what side of the party you're on, it is a fact we have the highest corporate tax rate of any country in the world today. Some people say we have many more different types of deductions and we're not as bad. OK, we're in the top quartile or decile. But we have very high corporate tax rates. If we had lower corporate tax rates, I do believe we'd have more foreign companies coming here and investing more here in this country for manufacturing.

But as you know because you worked in government, changing taxes is really hard. It's very complex. By changing the corporate tax rate and eliminating all deductions, you're going to have winners and losers. I'm sure your company will be a winner in that. BlackRock would be a winner. But there are some companies that truly pay very low double-digit taxes. And that's through all the various deductions. So there are losers there. But I think, unquestionably, lowering the corporate tax rate would be a powerful stimulus to this economy.

MR. RUBENSTEIN: And let me ask you, you are a member of the President's Advisory Committee, which has now met a couple times. It met yesterday for three hours or so. So can you tell us, what actually goes on in those meetings? [Laughter.] President Trump, does he kind of ask for advice? Or you just –

MR. FINK: You know what? You could say something very positive about this President: He is embracing business. I do strongly believe he's listening. He's hearing from many different business leaders. I felt yesterday's meetings were very constructive. I don't believe I'm wasting my time there. Actually, I believe we're being listened to and they're taking some of our advice.

MR. RUBENSTEIN: Do people kind of plead their own case? Well, an automobile person says, you should do this for automobiles, and a steel person says, you do this for steel, or don't people do that?

MR. FINK: Well, no, I mean, the President may be asking a single question related to one industry – how do you create more jobs in that one industry? And that CEO[8] may respond what he or she may think is the best in creating jobs.

Our economy is very complex. We have many rules and regulations that inhibit some profitability and inhibit job creation, but some of them are very good and very important to retain. It's a balance and I think this Administration is trying to navigate that balance. We're seeing positions or opinions being modified.

I'm there with the idea that if I could be helpful, then I'm serving my country. And that's what our job's about.

MR. RUBENSTEIN: So they serve you nice food, the Trump water – the Trump water? No Trump water? [Laughter.]

MR. FINK: I don't think so.

MR. RUBENSTEIN: Let's talk about investing. Everybody here has presumably some money they want invested. So if a person meets you in the street or they meet you at a dinner and they say, "Look, Larry, I don't really know what to do with my money." What do you tell them other than, give it to BlackRock to manage? What do you tell them? What should people do? What kind of rate of return should somebody get if they have some money? What kind of reasonable rate of return should somebody expect?

MR. FINK: I rarely answer those questions when I'm asked because I think that's the wrong question.

MR. RUBENSTEIN: What's the right question?

MR. FINK: I think the biggest crisis in America is not health care. I think the biggest crisis in America is retirement. Retirement is an elongated problem – it's not today's problem. I believe some of the anger in this country is related to people who are fearful of their future. They're fearful that they don't have enough savings and they can't live retirement in dignity.

We have this big macro trend overall – it's been adjusted somewhat in some sectors of our economy – that human beings and Americans are living longer. You have to have greater pools of savings now to live those extra years in dignity. You know, we spend so much time focusing on how can we live longer – "I'm going to exercise," "I'm not going to eat bad food," "I'm going to do all these good things making sure I can live longer." Yet there is no dialogue about, "OK, how can I afford it?" [Laughter.]

The average American has $18,000 of savings going into retirement. When Social Security was created, we called it the three-legged stool. You had your savings, you had your corporate plan and you had Social Security. The average American is totally dependent on Social Security. The average Social Security payment to an average American is between $18,000 and $22,000. So the average American at this time, when they go into retirement, will

[8] CEO is Chief Executive Officer.

be in poverty.

So when I'm asked that question, "What should I do with my money?" – let's assume I was asked that question by a 30-year-old. I would say put all your money in equities and make sure you're putting 5 to 15 percent away every month, and there's a value in compounding. The later you start putting money away – I was actually talking to a 52-year-old this past weekend on that, and he did not begin saving any money until he was 45. Now he realizes for him to live a similar lifestyle to what he's living today, he will have to work to 70 or 72. Presumably he's going to earn the same amount of money and needs to put so much money away so he could live those latter years well.

MR. RUBENSTEIN: Let's suppose somebody says, I hear what you're saying, but if I put some money in fixed income, over the next five years I want to not lose principal, just fixed income: What reasonable rate of return should we get on a fixed-income investment? Two percent? Three percent?

MR. FINK: If you want to make sure that you get your money back, you're going to invest in a five-year bond, and depending on if it's a corporate credit or a government bond, you're going to earn anywhere from 1 ½ to 3 percent.

MR. RUBENSTEIN: Let's say I want to be in equities; I want some capital appreciation. What do you think is reasonable to expect for capital appreciation in equities over the next five years or so – 3, 4, 5, 6 percent?

MR. FINK: I'm a little more bullish on that because I do believe if you are really concerned about how much money you have and you're kind of conservative, I would say make sure you invest in dividend-paying stocks so you get 3 or 4 percent as a ballast. Then maybe you get another 2 to 5 percent capital appreciation.

MR. RUBENSTEIN: And suppose you say private equity, 25 to 50 percent would you say? [Laughter.]

MR. FINK: Why so low? [Laughter.]

MR. RUBENSTEIN: Well, we can hedge our positions a bit.

MR. FINK: Oh, you're right.

MR. RUBENSTEIN: Larry, in your annual report you had a letter. And in it you talk about –

MR. FINK: Did you read it?

MR. RUBENSTEIN: I just read it today. [Laughter.] I read it today and it was well-written.

MR. FINK: Thank you.

MR. RUBENSTEIN: One of the things that you put in there was the importance of infrastructure. You think the United States is under-infrastructured, judging by a number of factors that you mentioned. What do you think is realistic to be done on infrastructure? The government probably can't afford everything. Do you think the private sector can afford to do what we need to do in infrastructure?

MR. FINK: Let's talk about the facts. In the United States, we're dependent on the municipal bond market for infrastructure. That's the whole foundation, unlike other countries like Australia, which has great infrastructure, or Canada or some of the other countries. So the foundation of infrastructure was municipal finance. Most infrastructure is not federal. Dulles Airport is, the TVA[9] is, but most infrastructure is state-owned, municipality-owned. And getting back to retirement, many of these states and municipalities are struggling with the liabilities they have for pension assets.

What has happened now across the country is we have under-invested in our infrastructure. We have over a trillion dollars of deferred maintenance now, so things are falling apart that we should be investing in just to keep them in proper [working order]. And if we want to have cities of the future, we are going to have to invest heavily in the electrification of our roads. We're going to have to invest in better pipes for broadband and all the other things that we're going to need to do to build the cities of the future. And we have no financing mechanisms for that.

We have huge pools of money in the private sector but we don't have a good history in America of having public-private partnerships, unlike other countries, because it was always cheaper to use municipal finance. Cities can't afford this anymore and we're going to have to create a mechanism of having public and private finance for some of the big projects.

I do believe – and I'm putting my Democratic hat on now – I do believe the Build America Bonds that were created under President Obama, $181 billion were used in 18 months. Build America Bonds were a federal subsidy of 35 percent of the interest rate. But to do a Build America Bond, those bonds were taxable, not tax-exempt. And obviously the rest of the municipal market is tax-exempt. So the Federal Government got most of that money back over time through people paying their interest in a taxable way.

So I do believe – and I've said this pretty loudly – I do believe we need to reinstate some form of a bond initiative like that. I think we could create jobs immediately. We could start working on the deferred maintenance problems that we have. And I'm very worried about our cities and our states and their ability to finance this. I don't believe they have the capacity.

Getting back to tax reform, David, we need to wait and see – this is all the uncertainty that we have – what will the Trump Administration do related to the deductibility of state and local government tax? That has a huge impact on revenues for some states.

If the Republicans happen to get the health care bill as presented, much of that federal savings that they're talking about, $800 billion over 10 years, is movement of money from the

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federal level to state Medicaid. We're putting all the burden on the states when they have no money, they have liability problems and they have retirement issues. This is why we need, more than ever – to your question on infrastructure – why we need, more than ever, public-private partnership, because we're not going to have cities capable of financing or states financing their infrastructure needs.

MR. RUBENSTEIN: One of your other themes in your speeches and also in your annual report letter is the value of long-term investing. You have been criticizing people for short-termism, as you call it. So what's wrong with worrying about short-term profits – just worry about the daily trading or weekly trading or quarterly reports? What is your concern about short-term focus?

MR. FINK: I don't know that many people who are really good every day at calling the markets, and I don't know any company who has that ability to just pivot every second and have a long-term strategy. If you're really focusing on your clients' needs over a long horizon, you're focusing on your communities where you operate and you're focusing on your employees. I don't know how you could do that other than having a long-term strategy. But I do believe the pressures today that are resting on CEOs are pretty enormous. You have many investors who are forcing pivots and movements.

In 2012, I had an epiphany. This is two or three years after we bought Barclays Global Investors – where we bought the iShares[10] business. We became the largest index player in the world through that acquisition. And it was very clear to me that we own these stocks, these companies, as long as they're in the index. We're the ultimate long-term investor because we have to own every company that sits in an index, even if it's the worst-run company in the world – and an index has, by definition, a lot of crummy companies and a lot of good companies. So the epiphany was that we have to own these poorly run companies, so what are we going to do about it?

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It was very clear to me that we have to have a loud voice on this whole concept of long term. Unfortunately, that narrative has been dwarfed by all the media that's in the room because they make money on the velocity of money, the clicks, and the noise, and the, "What trade do you like today?" "What do you like today?" "What's going on in Taiwan today?" And my answer is, who cares? Not that I don't like Taiwan, but the issue is, if we're investing, it's a long-horizon business.

When you really think about your investors who invest at Carlyle or the investors who give BlackRock money, people don't like to save. They want to consume. We all want to

[10] iShares are a family of ETF (Exchange Traded Funds) managed by BlackRock.

consume more. We save for three major objectives in life: You save to have a down payment on a house, you save so you could help your children in their later years – whether it's education or their future, and you save for retirement. That's it. These are really important components of each individual's life. It's not about the moment or the trade. It is about long outcomes, and we forget that narrative.

MR. RUBENSTEIN: So let me ask you, you mentioned indexing. Now, some people say that indexing is the only way to invest because you just – you buy the market; that way, you don't have to worry about whether you're underperforming. And some people say that active stock pickers are on their way out. In fact, your own company, you made some changes recently to maybe reduce the influence in some of your funds of active managers and do more indexing. What is your view on the value of indexing versus active managers in the equity area?

MR. FINK: They both play great roles. Our announcement was not that we were moving more to index. We have two businesses in equities: We have more model-based, big data equity investing, and we have the fundamental stock picking. For some of the categories of equity investment, we believe the democratization of information has made it really hard for the majority of investors to make the returns after the fees.

MR. RUBENSTEIN: Except private equity. [Laughter.]

MR. FINK: I didn't say private equity. Private equity is one of the asset classes that has proven they could make the returns after fees. So I got that advertisement in, didn't I?

MR. RUBENSTEIN: Great, thank you. [Laughter.] But in other areas?

MR. FINK: In other areas, in the very liquid, this is more of a U.S. phenomenon. You don't have that phenomenon in Asian equities or in most European equities.

Anyway, there is a big debate about the rise of index funds. Let me give you a little great statistic: $180 billion has moved into ETFs[11] in the first three months of the year. $180 billion. That's good for BlackRock, by the way.

MR. RUBENSTEIN: And you've got $179 billion of that? [Laughter.]

MR. FINK: No, we have 60-something of it. That's public – I could talk about that. That's public data.

Anyway, what people are missing is that many active managers are now using index products to get active returns. When you think about investing, you invest because you said you might like Mexico or you might like semiconductors or you might like bank stocks. Instead of investing in one individual bank stock, for instance, if you bought the bank indexes on November 9th, the market rallied quite considerably with the Trump elections and banks did well. If you bought that, you would've been up another 20 percent by buying that sector. What I'm trying to say is many active investors are now using index products for active returns. They're

[11] ETF is Exchange Traded Funds.

doing it for tactical allocation.

On the investment committees that I sit on, that I run, in the philanthropy that I'm involved in, we use ETFs and index funds when we want to have an exposure. If we determine we want to add five more points in a sector, we could do that through ETFs immediately that moment. Then when we find an active manager that we want to invest over the long run, we sell the ETF and invest.

MR. RUBENSTEIN: So if somebody wants to have their money managed by BlackRock, do they just call up a BlackRock call center, or do they buy a mutual fund? Or why not just buy your stock?

MR. FINK: You would've done well buying our stock.

MR. RUBENSTEIN: But how did you –

MR. FINK: Actually, some of our greatest competitors have owned our stock since the IPO[12].

MR. RUBENSTEIN: Right. So you have minimums?

MR. FINK: No.

MR. RUBENSTEIN: And most of your investors are not individuals – they're institutions?

MR. FINK: We have a platform – our ETF platform is our fastest-growing platform at our firm. When I bought BGI[9], iShares had $340 billion. Today it's $1.4 trillion. So it did pretty well.

MR. RUBENSTEIN: Let's go back to you growing up in Los Angeles in the 1950s. You go to UCLA and UCLA business school. What propelled you to go all the way to the East Coast when the weather is better in California, presumably life is great in LA. Why did you want to go to the East Coast?

MR. FINK: I met a couple of partners of various investment banking firms and I was intrigued about it. I was asked for a bunch of interviews in New York and it was just something that was very foreign and intriguing to me. Keep in mind when I joined Wall Street in 1976, First Boston hired 12 people. That was the size of the training program. I think Goldman Sachs was 15. First Boston's market capitalization in 1976 was $30 million. I think Goldman's partnership was $50 million. People have no idea what has transformed. This industry, how it changed itself.

MR. RUBENSTEIN: So what was your starting salary?

MR. FINK: Twenty thousand.

MR. RUBENSTEIN: Twenty thousand dollars. So you can afford a nice apartment in New York then on that?

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[9] BGI is Barclay's Global Investors

MR. FINK: Yeah but I couldn't afford a vacation. I could afford an apartment to live in, yes.

MR. RUBENSTEIN: So now you got involved in the fixed-income area. Suppose you'd been in the equities area or some other area, do you think history would've been different because you've had –

MR. FINK: Well actually, I was in the mortgage area. I started in the mortgage area when the mortgage area was just beginning. It was Ginnie Mae Securities then – and then my division started the whole Freddie Mac Trading.

MR. RUBENSTEIN: Can you explain to the average person what securitization of mortgages is? You were a leader in that. What does that mean to securitize a mortgage?

MR. FINK: Almost all mortgages of some form are now packaged.

MR. RUBENSTEIN: Before then they were not?

MR. FINK: They were sitting on balance sheets, principally at savings and loan. Before securitization happened, if you wanted a mortgage in 1975, you would have paid 400 basis points to 500 basis points higher than the 10-year Treasury. What securitization did is it brought in capital away from the S&Ls[13] to provide capital for the mortgage market. What is the spread now, 150, 175 basis points? So it really transformed housing in America.

MR. RUBENSTEIN: So in 1976 you joined. In 1988 you decided to leave. So what propelled you to leave and did you think you could build a very large money management firm? What was the idea you had about what you could do that no one else was doing then?

MR. FINK: It's a long story. We were the most profitable division in First Boston in 1981, '82, '83, '84 and '85. And what they did was they gave you more capital. We had no idea how we were making money. We had no technology to understand the risk.

Let's step back. As I look at Steve sitting in front us, it wasn't until 1983 that you had a computer on a trading desk. It's kind of odd but back then you had a Monroe calculator, and you really didn't have the technology at your fingertips. In 1983, when you had a PC on your trading desk, that's when you were able to take different cash flows, break them apart, and create securitization. That's really when securitization happened, when you had technology at the desk.

We were making a lot of money and all this stuff. Then in 1986 we lost money. I was a superstar at the firm. I was the youngest managing director ever in the firm when I was 27, I was on the executive committee, on the management committee at 31, and I was an ass at 34. [Laughter.]

MR. RUBENSTEIN: Well, that happens in Washington a lot too.

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[13] S&L is a saving and loan institution.

MR. FINK: Does it? [Laughter.]

MR. RUBENSTEIN: Believe me. Lose an election. You find out quickly.

MR. FINK: Anyway, I never forgave myself – I never forgave myself. One of my partners from back then, Greg Parseghian, is here tonight. Greg worked for me at First Boston and came to BlackRock. But I never forgave myself that we had no knowledge of the risks we were taking.

The genesis of BlackRock was that we were going to start an asset management platform based on technology. Twenty-five percent of the people we hired were people from what you would call technology, the leader of it, MIT[14] Ph.Ds[15].

MR. RUBENSTEIN: Where did you get the name BlackRock? I mean, obviously, was it because of Blackstone?

MR. FINK: That came from Blackstone.

MR. RUBENSTEIN: So the story I told earlier, is that accurate? More or less everything I say is accurate.

MR. FINK: Yeah, it's true.

MR. RUBENSTEIN: You went to Steve Schwarzman, who was only – that firm was only three years old, I think.

MR. FINK: It was a year and a half old.

MR. RUBENSTEIN: Year and a half old, OK. And you went to them and said, I want to start this firm and –

MR. FINK: I came up with a business plan, told them what we were going to do and told them what type of money we needed. I actually had someone – he ultimately became one of my board members – and another big member of New York City society. They were going to fund me to start my own company. But because of the First Boston experience, I did not have that confidence in myself to do it and I came to Steve.

I was asked by a partner of First Boston to help Blackstone raise their first fund, so I got to know Steve and Pete through that effort. We went to them after they just finished raising their first private equity fund of, like, $530 million. I went to them, gave them a business plan, and I became the fourth partner of the Blackstone group.

MR. RUBENSTEIN: So they gave you a credit line and ultimately you decided a few years later to buy them out. And what did they buy you – what did you pay to be – they owned 40 percent of you?

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[14] MIT is Massachusetts Institute of Technology.
[15] Ph.D. is the Doctor of Philosophy academic degree.

MR. FINK: That's not public, so I'm not going to go –

MR. RUBENSTEIN: Oh, it's not? OK. But they –

MR. FINK: They made a lot of money.

MR. RUBENSTEIN: They made a lot of money, OK. But you bought out –

MR. FINK: We had a good working relationship – at the time they owned 30 percent of the company. That $5 million line of credit that I only drew on a hundred thousand dollars would've turned into, what –

MR. RUBENSTEIN: Thirty percent of your company today would be worth –

MR. FINK: About $20 billion.

MR. RUBENSTEIN: Twenty billion dollars. OK. All right.

So what is it you actually did? I know you're obviously a very smart person. You knew technology. What did you actually do that enabled you to build a firm that was larger than anybody else? There are plenty of money managers who are around. And what did you – were you good in one fund, one area? What is it that you actually came up with that propelled people to want to give you so much money?

MR. FINK: It's the same reason why we're getting more money today than most firms or any firm. I think we are helping clients navigate their complex issues more holistically than any firm. Back then we were just a fixed-income manager and I knew we needed to evolve. But I do believe the whole foundation of risk management was the key characteristic that differentiated us.

As a young little firm in 1994, when GE[16] was having a bad time with Kidder Peabody and they had to liquidate it, they didn't call one of the Wall Street firms to help them liquidate Kidder. We were hired. Why? Because of our risk management system. It was really Jack Welch and a guy named Dennis Dammerman, who was then the CFO. They were the first to really understand the power of our technology. So it was our technology platform, our risk management platform.

But then when we went public in 1999, we had public currency to do things. We were the worst IPO of the month, by the way. 1999 was the dot-com era. Steve knows all about it. Our stock only went up an eighth on the IPO. That was the dog of the dogs. But after one or two years, people started realizing that we represented a cheap stock. We were living up to the promises that we told the shareholders. Stock went to 28. We started doing more.

It was really the discovery that I thought we had the culture to do acquisitions. The first

[16] GE is General Electric Corporation.

acquisition we did was in 2004 – we were 16 years old. We grew all organically before that, up to $360 billion, but then we started doing these acquisitions. We went public at a 14 P/E[17] and by 2004 we had a 27 P/E. Can you imagine that today? Would you like that?

MR. RUBENSTEIN: Right. What's your P/E now?

MR. FINK: It's about 18. But we used that P/E to make big acquisitions. We bought Merrill Lynch's asset management platform, then Barclays.

MR. RUBENSTEIN: So those two acquisitions – you bought Merrill Lynch's asset management business and then ultimately Barclays' index business – were those the two big decisions that you made that really –

MR. FINK: Yeah, but also how we structured those transactions. When we did the Merrill Lynch transaction, Merrill Lynch could own 49 percent of BlackRock. But I needed to go to Morgan Stanley and to Wells Fargo and to UBS[18] to show that we're independent. The only way I would've done the deal is if their shares would be voted with the independent board. So they had no power over the business behaviors of the firm – they had dilution rights and all that – but they agreed to the terms because they understood that being totally independent is a good thing. We could sell our products to all the different platforms, even with their 49 percent interest.

MR. RUBENSTEIN: So today –

MR. FINK: But can I just say one thing, David? Because we talked about this privately. I think the singular difference of why we've been able to grow faster than any other asset manager or any other financial institution that's gone public since then, is we understood very quickly – or I understood very quickly as the founder – to build a great firm, we had to eliminate the founder culture as fast as possible. The first time we met we talked about how little equity I owned in my firm, if you remember that.

MR. RUBENSTEIN: I do remember that.

MR. FINK: I believed in empowering more and more and more people, and I diluted myself down to very low single digit ownership. I do believe by empowering more people, getting more leaders, being able to attract great leaders from other firms to be part of it, plus having that high P/E and having the whole foundation based on technology, differentiated us. Our technology platform is called Aladdin. We now navigate trillions of dollars of other people's money on our technology platform.

MR. RUBENSTEIN: So what does your day consist of other than, you know, doing interviews like this, right?

MR. FINK: Talking to you and –

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[17] P/E is price-to-earnings ratio.
[18] UBS is UBS Group AG.

MR. RUBENSTEIN: But, I mean, you are – people must be – finance ministers or central bankers are calling you all the time saying what are you – what's going on in the United States? What's going around the world? So how do you decide who to call back? And how much traveling do you have to do to keep up with what's going on?

MR. FINK: You're one of the few people that may travel more than me or pretty close to me. I'm going to travel 750 hours this year. I think you're even worse.

MR. RUBENSTEIN: A little bit more but your time is more productive because we don't have $5 trillion, so you're doing a better job on the traveling.

MR. FINK: [Chuckles.] Look, I travel two weeks a month. I'm in the office at 6:00 a.m. It's a fun job though.

MR. RUBENSTEIN: So today you're 64 years old.

MR. FINK: I am.

MR. RUBENSTEIN: So are you happy to do this for another X number of years? You have no other plans, do you?

MR. FINK: A lot of people never believed it but I never had plans to come to Washington. At one time I probably wanted to. During the financial crisis, if I was asked at that time, I would've come to Washington. When I was asked when it was not a crisis, I said no and I stayed at the firm.

MR. RUBENSTEIN: So on the outside – and I mentioned some of your philanthropies – but what do you do for rest and relaxation? Are you a golfer?

MR. FINK: I've never been on a golf course.

MR. RUBENSTEIN: OK. Well, that shows –

MR. FINK: I'm actually a pretty good father and a husband and grandfather. My wife and I, we went to the same high school. We've been married now 42 years, 43 years this year. [Applause.]

MR. RUBENSTEIN: That's very unusual in the money management world, isn't it?

MR. FINK: Actually all eight founders [of BlackRock] are still with their original spouse. That's how boring we are. [Laughter.]

MR. RUBENSTEIN: Wow. I should've led off with that. That's more impressive than $5 trillion, right? [Laughter.]

MR. FINK: Yes, I actually believe it's a statement of commitment. [Laughter.]

MR. RUBENSTEIN: Today, as you look back on your legacy, what are you most proud of? You built the biggest money management firm. Presumably, you've made money for lots of people, so that's a good thing. But what are you most proud of having achieved?

MR. FINK: It hasn't happened yet. Probably the proudest moment for me will be when I leave the firm and I can watch the firm do better without me. That would be the ultimate accomplishment of a founder. [Applause.]

I have spent a lot of time doing that. I would say the most enjoyable part of the job is watching a lot of young people grow into really serious adults. The camaraderie and the teamwork of the team is really fun to watch. How people like working with each other, they enjoy their personal relationships, they have great professional relationships. As big as we are for a money management firm or a financial institution, we still have a pretty good culture of engagement. We do these surveys with the employees and they tell me we have a 92 percent approval rating by our employees. That's pretty high. We spend a lot of time making sure that our people are engaged, that they feel a part of it, and that they enjoy the culture.

MR. RUBENSTEIN: And your parents lived to see your success?

MR. FINK: Yes, 90 percent of it. Both parents passed about five years ago. They saw a good part of it.

MR. RUBENSTEIN: Well, it's a very incredible story and congratulations on having pulled it off. And again, you've built the biggest and most successful money manager in the world. So thank you for your time, and thank you for what you've done.

MR. FINK: David, thank you. Thank you, everyone. [Applause.]

Laurence D. Fink

Chairman and Chief Executive Officer, BlackRock, Inc.

Laurence D. Fink is Founder, Chairman and Chief Executive Officer of BlackRock, Inc. He also leads the firm's Global Executive Committee. Mr. Fink and seven partners founded BlackRock in 1988, and under his leadership, the firm has grown into a global leader in investment management, risk management, and advisory services for institutional and retail clients. Today, the firm is trusted to manage more money than any other investment firm in the world. Mr. Fink was named one of the "World's Most Respected Leaders" by *Fortune* in 2016, "CEO of the Decade" by *Financial News* in 2011, and one of the "World's Best CEO's" by *Barron's* for 11 consecutive years.

Prior to founding BlackRock in 1988, Mr. Fink was a member of the Management Committee and a Managing Director of The First Boston Corporation. During his tenure at First Boston, Mr. Fink was co-head of the Taxable Fixed Income Division, which was responsible for trading and distribution of all government, mortgage, and corporate securities.

Mr. Fink serves as a member of the Board of Trustees of New York University and is Co-Chairman of the NYU Langone Medical Center Board of Trustees. He also serves on the boards of The Museum of Modern Art (MoMA) and the Council on Foreign Relations, as well as charitable organizations the Nature Conservancy and the Robin Hood Foundation. He is also an Executive Committee member of The Partnership for New York City.

Mr. Fink earned an M.B.A. degree with a concentration in real estate from the University of California at Los Angeles (UCLA) in 1976 and a B.A. degree in political science from UCLA in 1974.