

# BlackRock, Vanguard and SSGA tighten hold on US boards

Regulators examine prospect of the Big Three becoming the Giant Three

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By Owen Walker

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BlackRock, Vanguard and State Street Global Advisors are on course to control four votes out of every 10 cast at large US companies, as regulators and policymakers probe the wider consequences of their increasing dominance of the investment market.

The influence of the Big Three, which have mopped up trillions of dollars of index investments in recent years, is being viewed by politicians as a possible antitrust issue.

BlackRock, Vanguard and SSGA, which collectively manage more than \$14tn, account for a quarter of votes cast at S&P 500 companies. This is set to grow to 34 per cent over the next 10 years, and 41 per cent in 20, according to academics at Harvard Law School.

“Policymakers and others must recognise — and must take seriously — the prospect of a Giant Three scenario. The plausibility of this scenario makes it important to understand the incentives of index fund managers,” wrote Lucian Bebchuk and Scott Hirst in a paper entitled *The Specter of the Giant Three*.

The pair point out that BlackRock, Vanguard and SSGA have quadrupled their collective ownership stake in S&P 500 companies over the past two decades, with each fund manager typically holding 5 per cent or more of US public companies.

They argue that the groups’ growing clout will lead to a lower rate of corporate interventions and allow company executives to be less restricted.

“The Big Three . . . can be expected to have substantial incentives to be excessively deferential to the corporate managers of their portfolio companies. If the Big Three were to grow into the Giant Three, these deference incentives would operate to weaken beneficial constraints on corporate managers,” wrote Mr Hirst and Mr Bebchuk, a leading academic in the field of corporate governance.

Rakhi Kumar, head of environmental, social and governance investments and asset stewardship at SSGA, did not agree that a greater concentration of ownership would lead to less scrutiny. “I doubt you would be able to find a company that says State Street is a pushover,” she said.

The Harvard study will reignite a debate among politicians and regulators about whether the Big Three pose a risk of so-called common ownership, an argument made by US academics that index managers’ stakes in several companies in one sector incentivise them to constrain competition.

This has led to regulatory investigations on both sides of the Atlantic and a strong defence from the biggest fund groups.

The US Federal Trade Commission and Department of Justice have both looked at the risk, while the European Commission and Margrethe Vestager, the EU competition commissioner, are studying the issue.

“It is becoming more common for the same investors to hold shares in different companies in the same industry. And for those investors, fierce competition might not seem so appealing,” said Ms Vestager this year.

“If one company outdoes its rivals, its shares will do well — but the shares of other companies in the industry might suffer. So for investors with holdings in several of those companies, it can be better if those companies don’t compete too hard.”

Ms Kumar said she believed the common ownership argument was flawed. “By holding the entire index, there is no incentive for us to push one sector over another,” she said.

Vanguard said it wanted portfolio companies to compete with each other and for the best performers to be rewarded. “A lack of competition among companies in a concentrated industry would have a negative impact on related companies and industries in which our funds invest,” it added.

The increasing dominance of the largest fund groups also calls into question whether their stewardship teams, which oversee their voting and engagement at tens of thousands of investee companies, have sufficient resources.

SSGA has 12 people dedicated to stewardship globally but Ms Kumar said the launch of the company’s new ESG scoring system and wider interest in governance from across the group meant it was not under-resourced.

“It is integrated into the investment process — there are far more hands on stewardship within the business than just 12,” she added.

Vanguard said it had 35 people in its investment stewardship team.

BlackRock said it had 43 people working in stewardship, and added: “In order to protect and grow the value of our clients’ assets, we engage directly with companies and vote at shareholder meetings on issues that we believe are essential to building long-term value.”