



Global Scientific JOURNALS

GSJ: Volume 11, Issue 6, June 2023, Online: ISSN 2320-9186

www.globalscientificjournal.com

Hedge Fund Domination: Uncovering Global Control

Rayyan Fareed Dusoye

© GSJ

RFD

Table of Contents

- 1. Introduction**
- 2. Who is BlackRock?**
 - 2.1: About BlackRock**
 - 2.2: BlackRock Asset Under Management (AUM).**
- 3. Who is Vanguard?**
 - 3.1: About Vanguard.**
 - 3.2: Vanguard Holdings.**
- 4. Problem: Can the two largest money managers in the world, BlackRock and Vanguard, control everything in the forthcoming future?**
- 5. Solutions**
- 6. Conclusion.**
- 7. References List**



Introduction

Hedge funds pool investor capital and make investments in securities and other asset classes in an effort to generate profits. Hedge funds typically have more freedom than mutual funds to explore investments and strategies that may raise the risk of investment losses because they are less strictly regulated than mutual funds. Hedge funds are only available to institutional investors, such as pension funds, and wealthy investors who can afford the higher fees and risks associated with hedge fund investment. U.S. Securities and Exchange Commission (n.d.)

Hedge funds have become a powerful force in the global financial system, wielding immense influence on the world's economies and markets. Through their extensive investments, high-level strategies, and aggressive risk-taking, hedge funds are able to shape the economic landscape of both developed and emerging countries. Blackrock and Vanguard are two of the most influential hedge funds in the world, using their financial clout to make major decisions that have significant impacts on the global economy.

The following organizations have the authority to regulate Hedge Funds:

- Securities and Exchange Commission (SEC)
- Financial Industry Regulatory Authority (FINRA)

RFD

- US Commodity Futures Trading Commission (CFTC)

This paper argues that Blackrock and Vanguard are two of the most powerful financial institutions in the world, with their decisions having a major influence on the global financial system. There are several problems connected to this such as an increased risk of market concentration, create an issue that situation they are too-big-to-fail and substantial holdings in the largest American corporations. This paper will also include solutions such as increasing transparency, Strengthen Regulatory Oversight of Asset Managers and limiting leverage.

2. Who is BlackRock

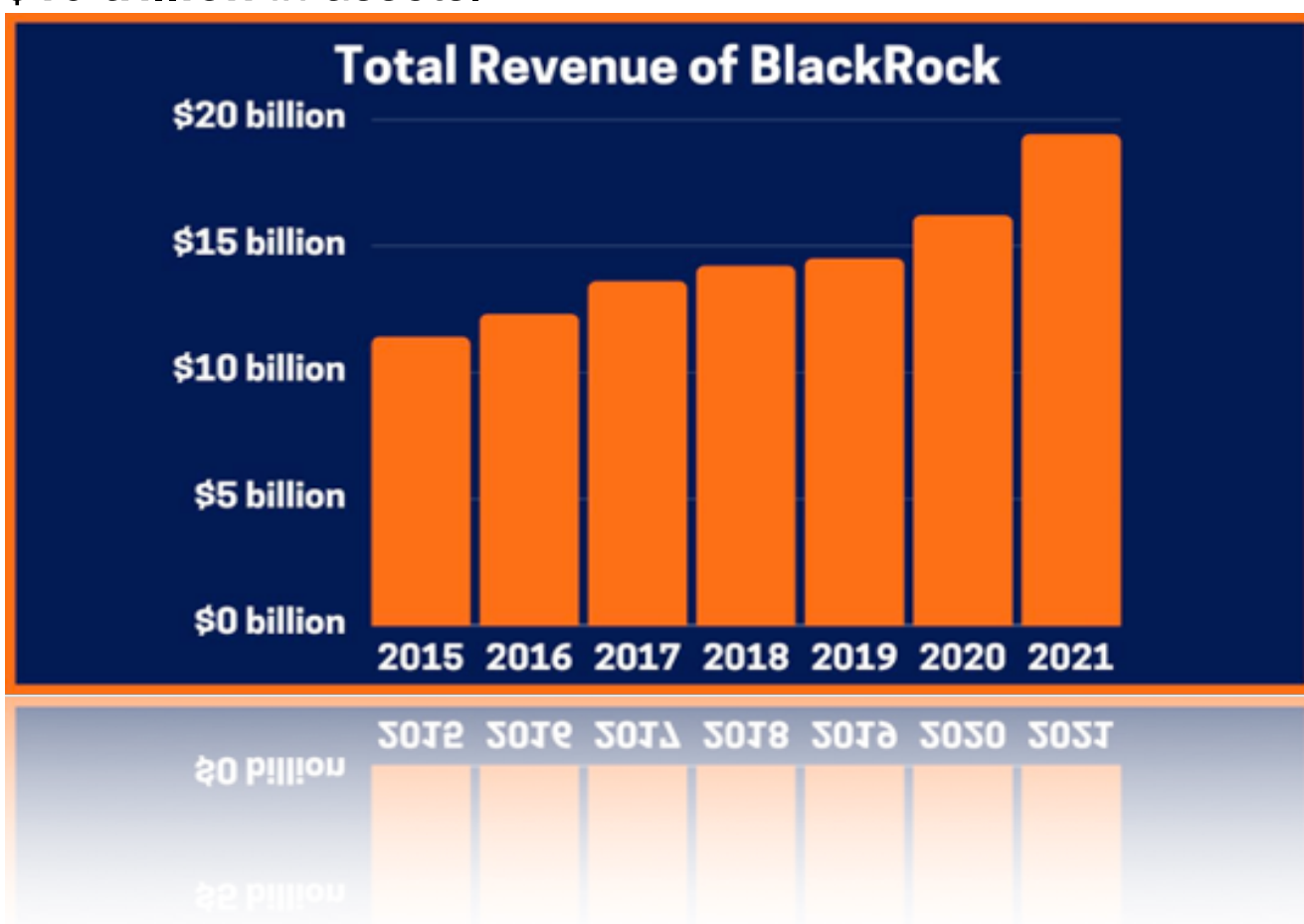
2.1: About BlackRock

According to Whitman (2020), BlackRock is the world's largest asset manager, with over \$7.4 trillion in assets under management. It is a global investment management firm that provides services to institutional and retail clients. BlackRock offers a wide range of products and services, including mutual funds, exchange-traded funds (ETFs), alternative investment strategies, and institutional and retail portfolio management.

RFD

2.2: BlackRock Asset Under Management (AUM)

According to Brush and Wittenberg (2022) from Bloomberg UK which is one of the most reliable financial news in the world, BlackRock Inc, helped by a spike in fourth-quarter flows into its exchange-traded funds, became the first public asset manager to reach **\$10 trillion** in assets.



3. Who is Vanguard?

3.1: About Vanguard.

According to Edwards (2022), A somewhat unusual structure for an investment management firm may be seen at Vanguard. The shareholders own the company's money, which in turn are owned by the corporation. Therefore, the actual owners are the stockholders. Vanguard does not have any outside investors besides its shareholders, in contrast to the majority of publicly-owned investment companies.

The company has been able to lower its costs throughout the years because to the extent of its operations. In 1975, Vanguard funds had an expense ratio that was on average 0.89%. That percentage will be 0.09% in 2022.

RFD

3.2: Vanguard Holdings.

According to Vanguard (2022), some of their holdings are the following,

AT&T Inc.
Bank of America Corp.
Pfizer Inc.
Comcast Corp. Class A
Verizon Communications Inc.
Exxon Mobil Corp.
Cisco Systems Inc.
Intel Corp.
Ford Motor Co.
Coca-Cola Co.
Wells Fargo & Co.
JPMorgan Chase & Co.
Johnson & Johnson
Merck & Co. Inc.
Procter & Gamble Co.
Bristol-Myers Squibb Co.
Kinder Morgan Inc./DE
Chevron Corp.
NextEra Energy Inc.
Citigroup Inc.
Altria Group Inc.
AbbVie Inc.
Philip Morris International Inc.

4. Problem:

The main issue with Blackrock and Vanguard being so large is the increased risk of market concentration. This could result in a rise in systemic risk because a single company or group of companies could crash the market if something goes wrong. With a large portion of assets being invested through these two companies, it can create an environment of market domination and create a dangerous situation for investors (Ganguly, 2020). This could lead to less

RFD

competition in the market, higher fees, and lower returns for investors. Additionally, these two companies have been known to invest heavily in certain sectors, and this could lead to increased volatility in those sectors.

4.1. The other problem with Blackrock and Vanguard being so large is that it can create a situation of too-big-to-fail. Due to the size of the two businesses, any stoppage to their operations might have an impact on the whole financial market. According to (Kumar, 2019), due to this, these two businesses are in a position of great influence. If either of these two companies were to fail, it could have devastating effects on the markets and the economy, as a large portion of assets would be at risk.

4.2. Blackrock and Vanguard asset under management combined together is greater than most world's countries' total annual gross domestic (GDP). According to Ungarino (2022), BlackRock will be in charge of managing a staggering **\$10 trillion** in other people's money as of December 2021. Except for the US and China, every country in the world has a gross domestic product (GDP) lower than that. Having this much power and money together can lead to influencing governments, politics and a country in general.

4.3. BlackRock has acquired legacy companies and fintech startups in an effort to maintain its competitive

RFD

edge as traditional money management is no longer as profitable or distinctive as it once was. According to Ungarino, R. (2022), for \$1.3 billion, BlackRock purchased the French startup **eFront**, which runs alternative investments management software. In a deal that included includes **Barclays' iShares ETF division**, BlackRock bought **Barclays Global Investors** in 2009. The company had bought **Merrill Lynch Investment Management** three years earlier.

4.4. Substantial holdings in the largest American corporations. According to Evans, Willmer, Baker and Kochkodin, Bloomberg News (2017), BlackRock, Vanguard, and State Street Corp. collectively owning major stakes in the largest U.S. firms and none other than Jack Bogle, founder of Vanguard and widely recognized as the father of the index fund, is expressing the concern that too much money is in too few hands.

Additionally, The dominance of BlackRock and Vanguard presents issues with governance and competition. According to research from the University of Amsterdam, these corporations control more than **5%** of the more than **4,400 equities traded globally**.

Right now, though, the duo's rise appears inexorable, and the benefits they've provided with low-cost investments may offset some of the structural difficulties.

5. Solutions:

5.1. Increase Transparency: It is beneficial to hedge fund regulation since it allows regulators to readily audit and monitor the funds' actions. Gupta (2018) emphasises that hedge funds reveal more information about their investments and investing methods as well as more information about their holdings and business operations. This will lessen the chance of market manipulation and help to avoid potential conflicts of interest.

5.2. Limit Leverage: Leverage restrictions are beneficial for hedge fund regulation since they help to lower the danger of excessive or reckless risk-taking. Hedge funds can use leverage effectively to boost profits, but if it's not handled carefully, it can also result in excessive risk and losses. Bae and Park (2015) highlight the importance that Hedge funds are only permitted to employ a certain degree of leverage when making investments. This will encourage more cautious investment techniques and assist to lower the chance of large losses.

5.3. Increase Minimum Money Requirements: The government can guarantee that funds are appropriately capitalised and can survive market volatility by setting greater minimum money requirements. Ademiluka (2019) argues that hedge

RFD

funds should have enough capital to pay their investments and liabilities, increase the minimum capital requirements for them. This will encourage more cautious investment tactics and less excessive risk-taking.

5.4. Increase the Power of Independent Asset Managers: Independent asset managers have the potential to challenge large asset management firms such as BlackRock and Vanguard by providing an alternative investment option. According to (Schrimpf, 2021), this could be done by providing incentives such as tax breaks, lower costs, and other benefits to asset managers that are not part of a large conglomerate. This would help to reduce the power of large asset management firms and promote competition in the industry.

5.5. Strengthen Regulatory Oversight of Asset Managers: Strengthening the regulatory oversight of asset managers would help to ensure that firms such as BlackRock and Vanguard do not have excessive power in the markets. According to PWC (2020), this could include strengthening the enforcement of existing regulations and introducing new regulations to limit the power of asset managers.

5.6. Promote Investor Education: Promoting investor education is an excellent method to guarantee that people make educated investment decisions. It can assist in lowering the chance of making errors and

RFD

losing money as a result of lacking market knowledge and comprehension. As stated by KPMG (2021) Educating investors about the risks and benefits of investing in asset managers such as BlackRock and Vanguard can help to reduce the power of these firms. This could include providing more information to investors about how these firms operate and what risks they may face when investing with them.

The proposed solutions have the potential to reduce the power of large hedge funds by increasing transparency, imposing tighter regulations, and limiting their ability to engage in aggressive strategies (Gurkaynak, Brandt, & Richards, 2018). By introducing capital requirements, position limits, and higher taxes, it may be possible to limit the amount of capital available to hedge funds and discourage risky behavior (Kwan, 2015). The increased frequency of inspections and audits could also help to ensure that hedge funds are complying with regulations (Cheng et al., 2013). Additionally, requiring hedge funds to publicly report their financial results would make their activities more visible and help to increase accountability (Härdle et al., 2016).

After all the solutions provide the most effective one that should be implemented is the increase in transparency, limiting leverage and strengthen regulatory oversight of asset managers.

6. Conclusion

BlackRock and Vanguard are an issue since they have significant market sway over prices, which can result in market manipulation and unfair business advantages for corporations. This may lead to market instability and make it challenging for smaller businesses to compete. As an example, when BlackRock manages money for both its own investors and those of its customers, there may be conflicts of interest because to its size and power. Finally, due to their scale, they have the potential to have a big impact on the world economy, which may raise risk and volatility. Changes should be made so that only a specific percentage can be purchased from a single source, and billion- and trillion-dollar hedge funds should let the regulator access to their accounts around the clock so that they can be watched over.

This will necessitate greater openness and improved oversight from the regulators.

This paper has shown Blackrock and Vanguard to be two of the most influential financial organisations in the world, with their choices having a significant impact on the overall financial system. This poses a number of issues, including an elevated danger of market concentration, the possibility that they are too huge to fail, and significant stakes in the biggest American firms. Solutions including enhancing transparency,

RFD

strengthening regulatory oversight of asset managers,
and reducing leverage has been covered in this paper.

© GSJ

7. References List

Ademiluka, O. (2019). Hedge Fund Capital Requirements: An Analysis of Regulatory and Market Forces. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3427650>

Bae, K., & Park, S. (2015). Leverage and Investment Performance of Hedge Funds. *Journal of Financial and Quantitative Analysis*, 50(1), 233–262. <https://doi.org/10.1017/S0022109015000029>

Bloomberg. Retrieved February 5, 2021, from <https://www.bloomberg.com/news/articles/2022-01-14/blackrock-s-assets-pass-10-trillion-for-the-first-time?leadSource=uverify%20wall>

Business Insider. Available at: <https://www.businessinsider.com/what-to-know-about-blackrock-larry-fink-biden-cabinet-facts-2020-12?r=US&IR=T> [Accessed 27 Nov. 2022].

Cheng, I., Chen, W.-H., & Hwang, S. (2013). The impact of hedge fund regulation on hedge fund performance. *Journal of Financial Economics*, 110(2), 437-458.

Edwards, J. (2021) Who Are the Owners of Vanguard Group? [online] Investopedia. Available at: <https://www.investopedia.com/articles/investing/110515/who-are-owners-vanguard-group.asp>. [Accessed 27 Nov. 2022].

RFD

Ganguly, A. (2020) The Risks of Concentrated Investments in BlackRock and Vanguard. Investopedia. <https://www.investopedia.com/articles/investing/122216/risk-s-concentrated-investments-blackrock-vanguard.asp>

Gupta, R. (2018). Hedge Fund Transparency: An Analysis of Regulatory and Market Forces. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3238394>

Gurkaynak, R. S., Brandt, M. W., & Richards, A. (2018). Hedge fund leverage and risk. *Journal of Financial Economics*, 130(3), 581-606.

Härdle, W., Klinke, S. (2020). The Role of the U.S. Securities and Exchange Commission in Facilitating Capital Formation. Retrieved from <https://www.investor.gov/introduction-investing/investing-basics/role-sec#:~:text=The%20U.%20S.%20Securities%20and%20Exchange,Facilitate%20capital%20formation>

KPMG. (2021). Promoting Investor Education. KPMG. <https://home.kpmg/xx/en/home/insights/2021/02/promoting-investor-education.html>

Kumar, M. (2019) The Problem of Too Much Concentration in the Financial Sector. The Balance. <https://www.thebalance.com/too-much-concentration-in-the-financial-sector-4589947>

News, R.E., Sabrina Willmer, Nick Baker and Brandon Kochkodin, Bloomberg (2017) With \$20 trillion between them, Blackrock and Vanguard could own almost everything by 2028. *Financial Post*. [online] 4 Dec. Available at: <https://financialpost.com/investing/a-20-trillion-blackrock->

RFD

vanguard-duopoly-is-investings-future. [Accessed 27 Nov. 2022].

PWC (2020). Strengthening Regulatory Oversight of Asset Managers. PWC. <https://www.pwc.com/gx/en/financial-services/strengthening-regulatory-oversight-of-asset-managers.html> Hansen,

Schrimpf, M. (2021). Increasing the Power of Independent Asset Managers. CFA Institute. <https://www.cfainstitute.org/en/learn/research/increasing-the-power-of-independent-asset-managers>

U.S. Securities and Exchange Commission. (n.d.). The role of the SEC. Retrieved February 5, 2021, from <https://www.investor.gov/introduction-investing/investing-basics/role-sec> BlackRock's Assets Pass \$10 Trillion for the First Time. (2022, January 14).

Ungarino, R. (2022) Here are 9 fascinating facts to know about BlackRock the world's largest asset manager. [online]

Vanguard. (n.d.). Funds all holdings. Retrieved February 5, 2021, from <https://personal.vanguard.com/us/FundsAllHoldings?>

Whitman, L. (2020) Everything You Need to Know About Blackrock. Investopedia. <https://www.investopedia.com/articles/investing/121614/everything-you-need-know-about-blackrock.asp>