



TALKING WITH



Michael Gruener

Head of EMEA Retail
BlackRock

Talking vertical integration, Aladdin and dogs on a plane with Michael Gruener, Head of EMEA Retail, BlackRock and Richard Romer-Lee, Square Mile

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WHAT ATTRACTED YOU TO THE INDUSTRY?

I was always a numbers guy. In Germany they have professional apprenticeships before you go off to university, so I was 15 years old when I started a three-year apprenticeship, as a German banker. I decided to go to university in Berlin and in Cambridge. My life then took a different path as I won a Green Card for the US in a lottery. I worked in Silicon Valley at a German tech firm, but when the tech bubble burst I went back to what I really knew – finance. I got a job working for Goldman Sachs in Chicago and after 10 years I moved to BlackRock, in 2012.



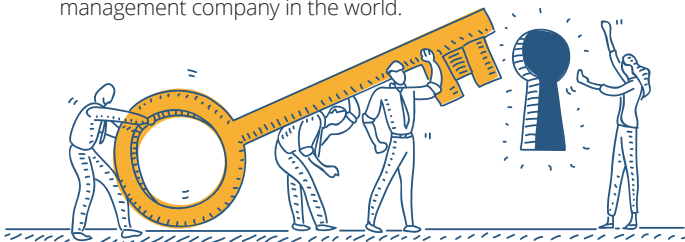
IS THE ALIGNMENT OF INTEREST WITH INVESTORS HARDER IF YOU ARE A LISTED BUSINESS COMPARED TO PRIVATELY OWNED?

Our company is led by our founders and our leadership team has a track record of taking a very long-term view. If we were short term, we probably would not have bought BGI, for example. We are spending hundreds of millions of dollars every year and it's not stopping. I've watched competitors pull out of markets when things get tough. Clients want to be able to rely on you – after all they have plenty of opportunity to go elsewhere.



HOW DO YOU GET PEOPLE IN SUCH A BIG COMPANY TO PULL TOGETHER?

It's personal for us all at BlackRock, which is still led by its founders. Paired with a very flat hierarchy within the business, it doesn't feel like you're working with the biggest asset management company in the world.



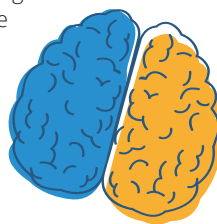
HOW IMPORTANT IS DISTRIBUTION IN ASSET MANAGEMENT?

You need a trusted relationship with your client and to offer a servicing model which fits with what your client wants and needs. It is extremely important. There are too many asset managers, and portfolio management and product quality alone is not enough. It helps if your brand stands for something and can mean something for your clients. People won't do business with people they don't trust.



HOW DO YOU ATTRACT RETURN AND MOTIVATE FUND MANAGERS?

Fund managers are interested in running pools of money. Here at BlackRock they're getting huge distribution. And Aladdin is the best portfolio management system in the world – nobody would dispute that. Our scale gives us the ability to do proprietary research and get proprietary data, which helps them to make better investment decisions. For example, we're buying satellite imagery over Russia to predict the outcome of the harvest. We are also buying it in the US to measure how long the queue is in Walmart. Every millisecond we're getting every single twitter feed in the world into BlackRock and we're analysing all the time. It helped us predict Trump getting elected and Britons voting for Brexit. All this increases the likelihood of running meaningfully sized portfolios and generating alpha, which in turn means they will get paid more.



WHAT'S YOUR VIEW ON VERTICAL INTEGRATION AND THE THREAT IT POSES TO INDIVIDUAL ASSET MANAGERS?

It's important to think about where the power base is – is it with distributors or asset managers? It's clearly with the distributors – especially as they are getting larger and larger. They are increasingly dictating terms, sometimes on a take it or leave it basis. 99% of our retail business is intermediated – will we ever want to bridge the last mile and go to the client? No. The biggest reason is that it's not in our DNA. We need to stay relevant to distributors – and this means going beyond just product. Our biggest clients want help in other areas – technology, marketing, robo advice, digital advice and how can they run their businesses better. We are an infrastructure and service provider as well as a product provider.



WHAT'S IMPORTANT WHEN MORPHING FROM A PRODUCT TO A SERVICE PROVIDER?

Being a provider of scale brings you pricing benefits and makes you more attractive to your distributors and clients. It means you are likely to be always one of the three, five, six strategic partners they want to do business with - and BlackRock is following that strategy. We want to be relevant. We want to offer a shelf upon which every distributor can find something they want.

HOW CAN THE ASSET MANAGEMENT INDUSTRY REBUILD TRUST?

We have a purpose in broader society. People care about a decent retirement, savings that are protected, being able to pay for their health, and a lifestyle which they can maintain throughout their later years. People should be trusting us more than they do right now.

HOW IMPORTANT IS ESG?

Screening stuff out is kind of old. Today we have integration which means integrating ESG in every single investment process - be it a corporate bond picker or equity analyst. How do you do that? We are building our own ESG database as we speak, and hiring people both in the UK and Europe. We are listening to our clients - in some countries their thinking is more advanced than others. I would say the Nordics, Belgium, France and the Netherlands are the ones who are leading that conversation - the challenge we have not only in BlackRock but the industry is that, there is no one-size-fits-all as each country approaches it differently.

WHAT ARE THE MAIN CHALLENGES FACING INVESTORS?

The fixed income market is at the end of the 30-year bull run. The equity market is in a 10-year bull run. But before we can argue whether a mild recession is coming in 2019, or 2020 or 2021, we can be sure it's going to come. How you navigate that is a big challenge for investors. Then on top of that you have huge risks in the system - such as China and Trump. You have Brexit, Italy or if you want to be broader, you may need to think about the future of the European Union. Beyond this we should build a bridge between states and people, helping countries and governments to maintain and improve infrastructure. A lot of retail investors and private investors will need help.

HOW IS BLACKROCK EVOLVING TO MEET NEEDS OF INVESTORS?

We are investing heavily in absolute return - or liquid alternatives. There is huge demand. But while daily liquidity works for some asset classes, it doesn't work for all. People want a wrapper and UCITS have provided a good structure. But it's not enough - regulators need to rethink their approach so retail investors are not cut off from certain opportunities. If you are investing for retirement, or the long term, you should be able to harvest liquidity premiums - not only the rich should benefit. Public markets are shrinking, more and more companies are owned outside stock exchanges - one challenge is to provide access to these.

WHAT ARE THE PROSPECTS FOR ETFs IN THE UK?

ETFs haven't made an impact in the UK as much as they have in the US, where there is more of a share culture than a fund culture, or Europe, where the structure of the market is different. Huge, huge distributors live and breathe shares and therefore they live and breathe ETFs as well. But there are several barriers for ETFs in the UK at the moment. High-street banks have not been interested in ETFs - or in delivering financial services to the masses. Secondly, many platforms cannot speak ETFs or securities, they only speak funds. But I think things will change.

HOW DO YOU RELAX?

I do moderate cardio or weights about six times a week, 50 minutes a day. Then I truly enjoy riding my Harley and I love spending time with my two dogs - Armani and Amadeus. They are a mix between Chihuahua and Shih Tzu. So they're little which means they can travel - below 8 kilos you're allowed to carry them on a plane. They've been with me to my place in Majorca. If it was up to me, dogs would be allowed in BlackRock.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING OUT?

Stay on your toes. Have a slightly bigger job than you're comfortable with by nature. It helps you develop and helps you learn. My father told me that it doesn't matter what you do but if you do it, you must do it right.

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