Arbitraging before the ink has dried

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We try to distill our thinking (in bold type) of the reasons for Larry Fink, CEO of BlackRock, to call out the “biggest capital markets arbitrage” of his lifetime, seemingly without a blink. When a USD10trn asset manager calls out a great arbitrage, something is likely to be going on and it's a not-so-subtle wink.

Creating a timeline of headlines/quotes about the firm this year is helpful to find any link.

1. Covid did not even generate a kink in the curve in the demand for private assets, and they have higher fee potential.

“BlackRock Inc (BLK.N), the world’s largest asset manager, is pushing more aggressively into private market investments, the firm detailed at an investor presentation on Thursday.” – BlackRock outlines investment push into private markets, Reuters, 10 June 2021.

2. Infrastructure – a core component of the ‘private’ asset class - plays a part to not shrink oil production opportunities in Saudi Arabia.

“BlackRock Inc. has been hired by Saudi Arabia to advise a new investment fund established to help finance a drive to upgrade infrastructure across the world’s biggest oil exporter.” – BlackRock Get New Saudi Mandate for Infrastructure Fund, Bloomberg, 25 Oct 2021.

3. Private assets are incredibly cheap on a relative basis, even arbitrageable, as they are not scrutinized on climate/ESG grounds the same way as public assets.

“BlackRock chief Larry Fink has warned that pressure on public companies to pursue net zero targets — while leaving private ones out of the spotlight — is creating opportunity for “the biggest capital markets arbitrage in my lifetime”. “ - BlackRock’s Fink says climate pressure on public companies is ‘biggest arbitrage in my lifetime’, Financial Times, 3 Nov 2021.

We strongly support BlackRock’s stated support for higher transparency in private markets minimizing the probability that the assets end up a stink. Indeed, we support more transparency across the whole industry, as climate is at the brink.
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