Perspectives from the World's Largest Asset Manager - With Salim Ramji, Global Head of iShares & Index Investments at BlackRock

Simon Brewer

Over the past decade, about 80 cents of every dollar that has gone into the US investment industry has ended up at Vanguard, State Street and BlackRock. As a result, the combined stake in S&P 500 companies held by the Big Three has quadrupled from about 5% in '98 to north of 20% today. Those are the opening lines to the book 'Trillions' written by Robin Wigglesworth, FT Global Finance Correspondent and former guest on the Money Maze Podcast. Today, we want to unpack the world of ETFs, exchange-traded funds, which is timely since it's the 30th birthday of the original ETF, the SPDR, and to understand not only their evolution and penetration, but how they're becoming a much broader wrapper for all sorts of strategies, not just plain vanilla passive ones. To help us achieve this, I want to welcome Salim Ramji, Global Head of iShares and Index Investments for BlackRock and a member of the firm's Global Executive Committee. Salim, welcome to the Money Maze Podcast.

Salim Ramji

Simon, it's a great honour to be here. I've loved your show and I've loved listening to it. So I'm glad to be here as a guest.

Simon Brewer

As I studied your career path, because as I said, I always have the advantage of knowing more about the person on the other side of the mic than they do of me, I found myself asking how does an individual who studies in Toronto, Canada, then in UK at Cambridge, who works as a lawyer at Clifford Chance, a management consultant at McKinsey, end up running the index business at BlackRock. Before you answer that, let's jump back because it seems to me your childhood armed you with what appears to be a growth mindset.

Salim Ramji

I don't know if it was a growth mindset. I was born in East Africa and we left rather abruptly as a number of people of Indian origin did in the late '60s and early '70s. And so for a couple of years of my life, I guess I would be what you'd call a stateless refugee. We lived in about four different continents before we landed in Canada, and I ended up growing up in Vancouver. I then went to college in Toronto, as you said. Canada's got a great system of public universities. Neither of my parents had gone to college and so it was a great way to get a college education. I don't know if it was a growth mindset, as you describe it, but it was certainly that I was fortunate in that I went to college and started to work at a time of great globalization across the world and across the professional services and financial industries. So I started out my first job in London in the city as a lawyer in the early '90s, and that was really when professional services and financial services was really globalising both in London but all around the world. I think it was more of that globalist mindset if anything. The first two years was not by choice, but I've become an ardent globalist ever since, and I think it's benefited me.

Simon Brewer

I just need to ask, because you pivot from Toronto to read law at Cambridge. Was there a specific motivation for that switch?

Salim Ramji

It was just interesting to me. I always found law to be fascinating and mysterious and something that other people did. I ended up spending two or three years as a lawyer and that disabused me of all of my mystique. But I really liked the idea of serving clients. I really liked the idea of serving clients all over the world. I loved the aspects of financial services. And when I moved to McKinsey, I ended up running their asset and wealth management practice, which is how I got to know iShares back in 2004, 2005. I'd worked on the merger between BGI and BlackRock, which is how I got to know Larry and BlackRock and I joined the firm about 10 years ago. And it's been a marvellous ride over this past decade at BlackRock in a variety of different roles, including the role that I'm in right now.

Simon Brewer

We're going to unpick some of those, but I just want to pause on the consultancy. We recently had Michael Birshan, who is Head of Global Strategy at McKinsey, and we've had quite a few folks who've gone from strategy consulting to finance. We've had fewer than you might expect who've gone law to finance. You took that interim step, so I guess my question is about McKinsey. What is it that you discovered in the work you did around the investment management industry that pulled you away from consulting?

Salim Ramji

First, I always found investing and finance and the process of investing exciting and mysterious and multifaceted. So I think it was just the curiosity of all the ways in which it could work. And I think underneath it, was just the purpose of it. Having grown up not with a lot of financial security, the importance of financial security is really,

really critical to people's lives and livelihoods. I think that the work that the investment management industry does to help people invest for the first time, to help people build retirement savings for the first time, I think is really worthwhile and important work. If you get it right, you can help people lead a very dignified life in retirement, and if you get it wrong, you can get a lot of financial insecurity in people's lives. I think that's a really worthwhile purpose. What captivated me about BlackRock was even 10 years ago, and it was a pretty significant firm 10 years ago, BlackRock and Larry in particular with the whole firm had an incredible growth mindset to them. That made me feel like I wasn't joining a big firm, I was joining a small firm with big ambitions. For me, that was a really, really exciting moment, one of the decisive moments for me as to why I'm here.

Simon Brewer

Let's talk about BlackRock and initially, high-level before we get to your business. So just give us a quick recap. I think it's the largest asset management company in the world right now. But just give us a sense of people, assets, places.

Salim Ramji

We have just under $9 trillion of clients' assets. We have a range of different asset classes, from alternatives to active management to ETFs to indexation to cash. We have an incredible technology platform that all of the portfolio managers at our firm and many other firms use called Aladdin, which is really a risk system for asset managers that over the past couple of decades, we've made available more broadly to clients and competitors. Our defining role is that we're able to help clients around a whole range of their portfolio problems, whether it's risk management problems with Aladdin or whether it's using ETFs or indexation or whether it's using active management or the like. The area of business that I'm responsible for are iShares ETFs and our index investing businesses is about two-thirds of Blackrock assets. About just over a third of that is within our ETFs and the other portions are in index separate accounts, things that are underneath the pension plans and endowments and foundations through separate accounts. And that's a big and growing area of the firm as well as of the industry as you noted at the beginning.

Simon Brewer

When we look at that indexed pie, your piece of the business, I'm sure the US was the initial thrust in growth, but just give us a sense of how it splits up between countries and even between strategies and sectors now.

Salim Ramji

Let me just focus on the ETF part, which is about a third of BlackRock's total. The amazing thing about the ETF part is not so much the size of it, although the size has grown significantly over the years, but it's the variety of choice. So we have over 1300 different ETFs all over the world. Some of them are the very basic S&P 500 funds or the very basic core funds that we do at a very low cost all around the world. But we have a growing body, 500 fixed income ETFs. We can talk more about that and I think they are a modernising force in the bond market. We have ETFs that take factor tilts, that take thematic tilts like electric vehicles or healthcare innovations. We have sustainable ETFs and we've got every variety of every single country and sector that you can possibly imagine. The choice is, I think, something that isn't perfectly understood in the marketplace, but it's a tremendous amount of choice, which just helps people use them in more and more ways in their portfolio.

Simon Brewer

Would it be fair to say that a more traditional view and therefore a criticism of the ETF business is that it has grown up assisted to a large degree by the US's extraordinary expansion as a stock market and as a percentage of global market capitalization? And if you get a regime change, which maybe we're going through, where there's more alpha and less beta, are you less worried about that now because that passive US is becoming a less important part of what you're doing?

Salim Ramji

I'm not worried about that at all to be honest, Simon. I actually think the whole notion of passive and active is a 20th-century construct. Most of the way in which our clients use our ETFs is for active management. If you look at the United States, to take one example, the US is about two-thirds of our total clients' ETF assets. But in the United States, last year, over half of our flows came from CIOs building portfolios and using ETFs to get exposures either to broad-based strategic asset allocation, or to particular factors like value, or to particular parts of the bond market, or because they wanted to invest in a more sustainable way and they liked our sustainable ETFs. More and more of the use cases for our ETFs are for active managers. It could be in a big wealth portfolio, or it could be active managers themselves, who we also count as our clients, using ETFs as ways to get exposures to hard-to-access parts of the market or markets that ETFs can access more efficiently. So the whole notion of active and passive, which I know was the origin story and Robin in his book talked a lot about that, I actually think is outdated for today. It's certainly outdated for how we talk to our clients about how they use the ETFs. The really exciting thing from where I stand is that more and more active managers, whether it's CIOs or active asset managers, are using ETFs to help gain access to parts of the market that are better sourced through the ETF vehicle itself.

Simon Brewer

Can you just explain how you go from concept to investment vehicle?

Salim Ramji

Let me give you an answer to a broad-based question about how does an ETF get created within iShares. What I would say is the first piece for every ETF we launch, there are dozens that we decided not to launch because they didn't meet our standards for market quality. They didn't meet our standards for being able to be, in our opinion, a valuable long-term investment for clients. We want first and foremost, to be able to look our clients in the eye 5 years from now, 10 years from now, 20 years from now and say this was a really good component of your overall portfolio. So there's a lot of very faddish ETFs that we don't do that are being done in the several thousands of ETFs that now exist in the marketplace. But what we start with first is research. We had launched a whole series of ETFs around things like energy transition, and there was one that we launched a couple of years ago about our low carbon transition readiness ETF. And it was based on some deep research that we'd done within BlackRock about the opportunities for investing behind companies that were more transition ready. We then looked at the underlying securities. In this case, it was all equities. This was really kind of putting some tilts on market cap-weighted indices to make sure that we could invest in those markets and we felt very comfortable that we could. We tested client demand. This couple of ETFs that we launched a couple of years ago had some very good client demand from all over the world, and then we launched it. In this case, the ETF that we launched, we launched under the BlackRock brand, because it had a lot of active management components embedded in it. It was the most successful ETF launch in US history. Active or index clients had put well over a billion dollars into it. But it looks at the whole process end to end. In some cases, if we're managing it through a third-party index provider, we'll work with that index provider to be able to help create an index that is able to achieve that outcome, whether that's around looking at the whole spectrum of electric vehicles or looking at the whole spectrum of innovations in healthcare, to pick two themes, which we also launched. We're always rebalancing and we're always tweaking and we're always working with the index providers to make sure that that exposure replicates well to the underlying index. And that's the broad basis of how we do it. So we've launched a number of ETFs over the past four or five years, but I would say that there are orders of magnitude more that failed on the cutting room floor, if you will, that we didn't launch because they didn't meet our standards for market quality or being a good long term investment.

Simon Brewer

You've referred to it but let's just put the spotlight on your clients. You have institutional clients and you have individual clients, either directly or through gatekeepers. Explain a little bit about how they use your array of products.

Salim Ramji

We offer an abundance of choice, but we also need to help simplify that choice for clients. I think one of the great things about ETFs is that it's a great equalizer. An individual investor can buy our S&P 500 fund commission free here in the United States on a platform like Fidelity and some of the world's most sophisticated active managers will use our bond ETFs as part of their alpha generation process in bond investment management. And you get every different client segment in between, from a wealth advisor to an insurance company to some of the world's leading central banks to pension funds. So we have multiple different client segments all across the world. The thing that unifies them is they love the transparency, they love the efficiency, they love the convenience of ETFs, and different segments will want different things out of the ETF. An active investment manager in the bond market is typically buying our bond ETFs because they have marvellous liquidity dynamics or because they're able to replicate a slice of the market, take the mortgage market that would be otherwise quite difficult to do through a basket of bonds, and they're able to do it more cheaply or more efficiently through a bond ETF. A first-time investor might just want a single ETF or a model of ETFs which allows them to get invested for the first time for €10 or €100 in just a simple, easy and efficient way. I think this great equalizing effect of ETFs is one of the marvels of the technology.

Simon Brewer

It's interesting because in a few weeks, we'll be releasing a series of interviews that we've conducted with the sovereign wealth funds where you have on the one hand CalSTERS and the CIO saying he's all into passive because of the low costs and the access to beta, and then you've got Ontario Teachers' having very much more active positions. And of course, BlackRock, I understand has almost the menu to fit. But if you're an outsider looking in, you'd look at the three big providers and you'd go, that's what I would understand to be an oligopoly. And one of the features of an oligopoly would typically be pricing advantage, and yet there seems to be relentless compression on fees in your space. Where are we going?

Salim Ramji

I think there are a few things happening. For us, we are always trying to build scale and scale efficiencies using our technology, using our investment management process. And as we grow, we share those scale efficiencies with our clients. Even last year, when inflation was rampant, we dropped prices across nearly 70 of our iShares ETFs and we did that in the belief that if you take a four-year view or a five-year view, clients will reward us with more of their business if we're able to offer them a better and better deal. I think that's one of the real positive attributes of what indexation has done. We have over 120 million people around the world who use our index capabilities, about 35 million of them use iShares, and we want to grow that. There is demand for tens of millions of more people who want a fair deal from their investment manager and so we're very determined to keep applying scale efficiencies and keep giving clients a good deal. The second part of your question is about how much of a particular, in this case, S&P 500 company is it useful or healthy for index providers to own. And I think that number has grown over the years. For certain S&P 500 companies, you'll have index providers. The three or four largest index providers own 5%, 6% each, maybe about 20% depending on the individual company. And I'd give you two answers to that question, Simon. One of them is index providers are the ultimate long-term investors. We will typically hold a stock in the S&P 500 for 25 years because if a company has a good quarter or a bad quarter, I need to hold it as long as it's in the S&P 500. That gives companies the ability to have good long-term predictable shareholders so that they're able to make long-term investment decisions and they aren't just subject to the vagaries of this quarter or that quarter. I think that's a good thing from a corporate governance point of view. One of the other things that we did, and we launched this a couple of years ago, is our voting choice initiative. This was a real novelty and a number of our competitors have since replicated it. But what we now do is that for half of our index assets around the world, they have access to a technology that we developed in partnerships that we developed, such that if they wanted to vote their own shares, because they're the owners of the assets, our clients can now do that. So we've seen pension funds avail themselves of that, both public and private. We've seen endowments avail themselves of that. But that's really just about offering choice and more customisation through technology and making it super efficient, super convenient. Both of those forces are underway, which is that as long as we offer a good deal for clients and we're able to track these indices precisely, they're looking to put more money to work. And if we can provide novel and new features like voting choice, I think it gives the owners of the assets a much deeper connection to the companies in which they invest in and we continue to provide good long-term stewardship for firms or individuals that want us to vote their shares on their behalf.

Simon Brewer

I actually can see why you've ended up in such a senior position because you keep on going to my next question before I've got a chance to get to it. But I want to pause because I read Larry Fink's report ‘The Transformative

Power of Choice in Proxy Voting', and I paused on that because the criticism has been in the ETFs, you sign away your responsibilities and you don't get to vote. He, as you have just articulated, providing through technology the ability for people to have a say, but the ability to have a say is very different from having a say. So just explain to me how you buy an ETF and you own Exxon and Exxon has been, shall we say, behind BP in the energy transition, and therefore, you might argue as a shareholder you have more you want to say to Exxon's management than BP's. How does that actually work?

Salim Ramji

Let me give you two answers to your question. One, today, we have the largest stewardship team in the industry. And the singular focus of our stewardship team is around how to look to the long term, because most of our clients are long-term in their orientation, and help our clients achieve the best risk-adjusted returns. So their focus is financial, but its long term in its financial emphasis. So our stewardship team which publishes plenty of reports on transparency and makes their policies and their voting record very clear, they voted 176,000 times last year to be able to understand the nuances of different companies in different sectors but with that singular focus in mind, which is how do we achieve the best long-term results for our clients. For the clients who wanted to avail themselves of choice and more choice, we provide the technology and we provide the platform in two different ways beyond the BlackRock choice. One, we've helped curate a list of I think it's now about 15 different options through third parties for clients who wanted to vote in a super green way, to take one example. We have a different choice on there which is for clients who wanted to vote in a faith-based way. We've got a Catholic values policy that's up on the choice and we've got every different choice in between. If a client asks for a 16th choice or a 17th choice, we'll help put that up on the menu of options. And that's what a lot of clients are asking us to do is help them expand the menu so that they can vote still in a simple way, but they're geared towards a specific policy which may tie to their own endowment mission or their own pension mission or the like. And then some clients, and this tends to be some of the bigger ones, will just say, 'Actually, I want to vote everything myself.' Now, that requires research and time and commitment. But some of our larger clients have their own stewardship teams and they will do that. And again, we will avail them of the technology and the apparatus to do it easily, efficiently, so that it makes it easier for them to do that. We have some pilots underway in places like the UK to even expand that to individual investors and I think that's what Larry was also talking about in that letter he sent out a few months ago, which is how do we use technology to make it easier for people who want to, to connect more with their money? But how do we also make convenience a great part of it? Whether that's conveniences saying BlackRock can do it or conveniences like pick off of this set menu, we're exploring this whole universe. What's really exciting is that we just launched this a couple of years ago. The take up from clients has been great. Each of our principal competitors have since launched their own initiatives, which I think is a really good development for the industry. It is quite transformative in terms of corporate governance because it just starts to connect the owners of the capital with the users of the capital, and we play an important role as an intermediary. But we're there to help facilitate that and help make that better through technology and through the ability to customise.

Simon Brewer

I'd like to move to fixed income. I had to smile because I was doing my work and I was thinking there's a couple of questions I really want to ask here. And then my mailbox two hours ago landed this piece saying, dispelling the myths about ETF investing in fixed income by BlackRock and I thought, 'Damn it, the answers to my questions might be there.' So your quote reading your work is, 'We believe the global bond ETF industry is poised to reach $2 trillion by 2023.' And you go on to say, 'Bond ETFs have revolutionised fixed income investing as they provide instant access at transparent prices to hundreds of bond market exposures in ways that are accessible to all investors.' A very clear statement. I then reflect on that and think we've interviewed guys from CalSTRS, from the CIO from PGIM, and the one thing that comes back quite clearly is that achieving alpha, so beating the index in global fixed income, is significantly easier than in the world of equities. And so whilst it offers liquidity and access and the rest of it, isn't there a danger that global fixed income investing as an asset category, you're almost signing up to underperforming the alpha managers?

Salim Ramji

Not at all. This is part of the revolutionary change that's happening. And I think if you permit me, I'd like to answer your question at two levels, one macro and then one micro, which is your actual question. At the macro level, what ETFs are doing is that they're changing the underlying market structure of the bond market itself. I was surprised about five years ago, I started to first really get into and understand the bond market as a bond market immigrant. The good thing is I had many thousands of colleagues who were bond market natives that helped me understand why it works in such an antiquated, over-the-counter, individually negotiated, relatively expensive way. To my mind, there was no good reason why that should be. I think the bond ETF, which turned 20 last year, the iShares bond ETF were the first ones out, is really changing the way in which the bond market operates to be more exchange-traded, to be more transparent, to bring together liquidity through the exchange-traded mechanism, and to be able to provide actionable prices where they didn't exist before. I think it's revolutionary. The Stanford professor Alvin Roth, who knows a thing or two about market structure, he was quoted as saying that this is as important to the bond market as eBay or Amazon marketplaces was to the garage sale market or to small business owners wanting to put their inventory up on the internet. So there's a profound change that's happening and I think the exchange-driven nature of this, which isn't true in equities, because stocks always traded on exchanges, but bonds did not. I think it's really important. It's really profound. And that's underlying our macro level enthusiasm as why we think a $2 trillion market can be a $5 trillion market by 2030. And even then, it would only be 5% of the bond market up from 2% today. At a more micro level, which is really the question that you were asking that what's happening is that we've seen an expansion of choice. And with that expansion of choice, we now have the ability, and we've tripled our lineup of bond ETFs over the course of the past seven or eight years. We now have 500. But you can now access not just the broad-based aggregate indices that we've had, but you can access different parts of the yield curve, you can access different parts of credit, you can access different sectors and different country exposures and you can assemble them together to build a portfolio in the way that you want rather than just having to rely on a single broad-based index. I think one of the most remarkable things that probably captures why I disagree with the premise of your question is that 9 of the 10 largest active managers in the world are iShares clients. They use our iShares ETFs and they use them as part of their active bond management process because they're able to get more efficient access to even broad-based markets like investment grade or high yield through the ETF than they are in the underlying bonds, because the bonds themselves are still expensive and expensive to access, hard to trade. But the bond ETFs are much more liquid, the bid-ask spreads are much tighter, and so they're using it as a way to get efficient access to the bond market itself rather than the underlying bonds. And now they have 500 different ways in which they can access it, so you're also enabling it to expand beyond choice. It's becoming part of the fabric of the bond market. It's becoming part of the fabric of active management. When we had 1 out of 10 active managers using bond ETFs, it was our own Rick Reeder and Jim Keenan, some of our big active bond managers, and they are some of the biggest advocates for the power of this technology in the alpha generation process itself. And hopefully, the rest of the industry has now caught up and 9 of the 10 biggest ones are now clients as well. I visited the 10th last week to hopefully in a year, I could say 10 out of 10, but we're still working on it.

Simon Brewer

Your defense of that position is first class, so I want to move on then to my next question, which is around gating. We've all seen the problems open-ended property companies have had, and many have predicted that there's going to be more of a mismatch between the underlying liquidity. For folks who may have forgotten, in the COVID meltdown, we almost had a liquidity event in LQD, which is the investment-grade corporate bond fund which the Fed solved by coming in and buying. I'm not a bond immigrant. I've managed balance money, but I'm definitely not a bond native so I turned to a former bond guru at Goldman Sachs, Aidan McGreevy, and he said, in the new world where the Fed is trying to reduce moral hazard, how will that happen with the ETFs? Isn't there an underlying fault line in some of these structures?

Salim Ramji

Let me, again, give two answers to your question. The first is I reject the premise of your question. And the second is I'll give you a broader answer to the question itself. Let me take you back to March 12th of 2020. So this is well before the Federal Reserve or others really stepped in with the big liquidity movements that happened all across the world. The bond market itself was dysfunctional. Large parts of the bond market weren't trading at all, even if you looked at the five most liquid exposures in investment-grade credit. So the most liquid companies, the healthiest companies within investment grade, they were trading maybe 20, 25 times on that given day. LQD on that day, traded 90,000 times. And so it became the place in which price discovery, actionable markets was happening in the bond market. What we really saw in the underlying bond market, we saw that on March 12th 2020, we saw that at the end of March, we saw that in April, we've seen it in every single major bond market stress event, including the financial crisis and the dozens of different stresses that have happened before that, is that investors looked to bond ETFs, and particularly exposures like LQD, as places to get price discovery, places to get liquidity, places to get actionable markets. What I really saw in terms of the different central bank interventions that happened beyond the obvious injection that needed to happen as a result of COVID was that it was bringing the bond market itself back to life, because that was the piece that was dysfunctional. The ETF market was operating, and if anything, was becoming a shock absorber to the rest of the bond market itself. You don't even have to take my word for it. We've published a lot of stuff within BlackRock around those events, so has the Bank of England, so has the SEC, so has the ECB, and so have regulators around the world that really looked to those moments as moments where the technology of bond ETFs helped stabilize the market, helped bring access to a market that had itself gone dysfunctional. What we really saw after that event, Simon, was a huge surge of demand coming from all kinds of clients, insurance companies, asset managers. We have over 18 different central banks that use our bond ETFs, many of them before this incident, many of them after it, because what they found is it's just a better way to access the bond market. And I think if it comes to the other part of your question about property and the like, one of the great features of the ETF, and it's a technological feature, is the secondary market. For an open-end fund, if you want to redeem, typically, you've got to sell the underlying securities, and that can in moments of stress provide certain challenges, particularly if certain funds have large, illiquid positions in them. One of the great features of ETFs is that we have a rich secondary market. Typically, the primary to secondary ratio in ETFs is about 1 to 6, 1 to 7. It means for every time that we're creating a new ETF with bonds or redeeming an ETF with bonds, 6 or 7 times, people are just trading the ETF itself amongst them. And what we found in every moment is stress, whether you go back to March 2020 or even if you go back to last year, which was a really volatile, really difficult bond market, one of the worst in decades, we saw that ratio expand to something like 1 to 15. What it tells us is that in moments of stress, whether you go to last year, whether you go to two years ago, whether you go to the financial crisis, or every event in between, more and more investors are looking to bond ETFs as the place in which to access the market. And it's because of all these features that I talked about before, which is that they're on exchange, they're liquid, the prices are transparent, you don't have to rummage around for inventory with a bunch of different banks and liquidity providers. You can see it and you can access it. That unifies the capital markets. And I think that's one of the great equalizing effects that bond ETFs have really brought over the past 20 years.

Simon Brewer

Maybe I'm being a bit obtuse, but if you were an investor in one of those, the BREIT which happens to be the Blackstone REIT, we've seen it in the UK where they froze the structure. What actually happened if you were an investor?

Salim Ramji

I'm not going to comment on a competitor's product around it. What I will say is that the benefit of having the technology of an ETF is that you can readily find buyers and sellers. And I think that's a real benefit, even relative to the mutual fund. The mutual fund is well-regulated, is governed by the same rules that govern ETFs. But I think one of the great enhancements that happened 32 years ago with the launch of the first ETF, and as a proud Canadian and as the leader of iShares, I will correct you, the first ETF was launched in Canada in 1990. It still exists. It's an iShares ETF up on our Canadian lineup. That innovation that happened in the early '90s was, I think, a technological innovation because it provided a secondary market so that you didn't have to go through the pain of being able to redeem and then invest again. You could just trade an instrument amongst a buyer and a seller and you could find that buyer and seller on Canadian exchanges, US exchanges, and now across all global exchanges in that way. I think that feature is a really important feature of an ETF, but it's especially important in the bond market. And I think that's why you saw the liquidity provision, and why we're so proud of the liquidity that we're able to provide within iShares.

Simon Brewer

So I'm duly corrected. I'm going to blame Robin Wigglesworth because it was his quotation! So when he has his updated version of the book, he's going to have to refer back to his Canadian history. I've got a slightly different question, which is really around dangers and leverage. It's very clear to me that there are lots of vehicles masquerading under the passive umbrella. But as I went back, I sort of shook my head because it was Credit Suisse that issued these velocity shares, Daily Inverse VIX Short-Term Exchange-Traded Notes, which went down 90% and then was closed. And I'm thinking, where's the morality in this? I think somebody at the time said the whole strategy was like trying to pick up pennies in front of a slow-moving road-making machine. But do you worry that in the tidal wave of creating products that serve very good purposes for investors, there's some stuff that's just not very appropriate?

Salim Ramji

I think, and I'm certainly biased in this view, but I thought it even before I took this particular role here at BlackRock, that I think ETFs and indexation are one of the great marvels and one of the most marvellous inventions in investing, and ETFs, in particular, and indexation generally. I think that with all the innovation that's happening, there are thousands and thousands and thousands of ETFs out there, and they're doing all sorts of things, some of which are really, really good and some of which aren't so good. I think the price of any innovation is that you have edge cases where it doesn't work and it's not good for investors. And I think that we need to be really vigilant about that. In the role that I'm in, I obviously have responsibility for the integrity of all of our ETFs and all of our index investing. That's my fiduciary commitment to our clients. But in the leadership role that BlackRock and iShares play, we're also mindful of other ETF providers can bring harm to the whole industry itself. And so we put out a proposal a few years ago around reclassifying ETFs. I think that there's certain things which are ETFs, which are the majority of them. There's certain things which are more exchange-traded commodities, so your platinum or your gold, that's a commodity, and that operates under a different regime and it's still a good product, but it's a commodity ETF or an ETC. And there are other things that are really just structured products masquerading as ETFs and we don't think they should even be called ETFs at all. If someone wants to build a structured product and someone wants to buy a structured product, great. That's up to them and the like, but I just really object to someone putting an ETF label on that, because it's trying to pretend that it's something that it's not. We've been quite vocal about that. We're not going to launch anything like what you described, and those types of ideas don't even make it onto the cutting room floor, they don't even make it into the room in terms of our product innovation or product discussions.

Simon Brewer

I felt particularly strongly in my time at Morgan Stanley when we didn't want to entertain a number of these structured products and other things, as you say, masquerading under the ETF banner. One final question before

I ask you some general ones is that in lots of parts of the world, there has been the arrival of the first-time buyer of ETFs, and some of those are in geographies which, and I note and I remember from my previous career, different European countries have different regulations and it's so much more difficult to launch something as opposed to launching it in the US. But could you just talk a little bit about what you're seeing in the growth of some of these savings products and some of the first-time buyers?

Salim Ramji

The first-time investor is something that I pay a lot of attention to. We've got 35 million clients of iShares around the world. I'd like that number to be 50, to be 100 million, and I think there's opportunity to do that, particularly with the first-time investor. If you look at a market like Germany, for example, that has a strong savings culture but hasn't historically had a strong investing culture, the combination of digital wealth platforms and the growth of that technology and ETFs and ETF savings plans is turning millions of German savers into German investors. If you think just across Europe, not just in Germany, there are now 6 million people who invest every single month about €100, €150 a month into ETF savings plans. That number has doubled just over the past two or three years. We expect it's going to double again over the next three or four years, and we expect that by 2026, one out of every four Germans are going to be investing through ETF savings plans. We think that's a really good thing because what's happening is that people are investing for the first time, they're doing it in a low cost, efficient and simple way. The best way to get a long-term secure retirement is to invest early, invest often, and just stay invested in the market for the long term. And I think that's a really exciting development, both using the ETFs, but also the power of some of these digital platforms that have emerged in Europe over the past several years.

Simon Brewer

To repeat that old adage, it's not timing the market, it's time in the market. So Salim, I've got to ask you some general questions. I noticed just seeing your other interests that you're a trustee of Graham Windham, a New York based childcare agency, and I wondered just how did you get involved in that?

Salim Ramji

It's got a remarkable history to it. It's the oldest child services agency in the United States. It was founded by Eliza Hamilton, the widow of Alexander Hamilton, as a place for orphans because Hamilton himself was an orphan and she took a lot of thought and care into setting up a safety net for the children of New York City. And it still does that purpose. It's mostly focused on kids in the foster care system in New York City, but I got involved in it both because I was attracted to its purpose and its mission. A mentor of mine was on the board and was rolling off of the board and so he introduced me to them, and I've been part of them for close to 20 years. I think they provide a great service to the children of New York.

Simon Brewer

We live in a world, particularly I would say the investment world, where there is an overload of information, and I just wondered how you switch off, relax and deal with that volume which one can literally feel like one's drowning in it.

Salim Ramji

I travel a lot as you would imagine. But every Friday evening, I've got two teenage or almost teenage boys, we have dinner together and it's a ritual. And it's both a good forcing device to make sure that I'm always home, but it's also a good ritual because it takes all the information, all the stresses of the week, and then it provides a new set of problems. The problems of a 12-year-old boy are stressful and different than the problems that I have. But there are things that my kids want to talk about, there are things that we talked about over the dinner table, and I think that provides for me at least a good break between the week and then the next week starting or the weekend. I don't know if it's relaxing. It's just a different set of issues, but it's a set of issues that are real and personal to me and to my wife and to my kids and so that's a moment of providing a break between work and home. We keep up that ritual. I also like to read a lot of books. I enjoyed Simon Sebag Montefiore's interview here on your podcast. I love his books. I just ordered the latest one after his interview with you. World history, the history of different eras and different groupings around the world are a real fascination for me. On Saturdays and Sundays, I spend a lot of time reading.

Simon Brewer

We were very lucky because the other interview we had was with Peter Frankopan who wrote 'The Silk Roads' who is Head of Global History at Oxford, and he was another terrific guest. I’m going to put you on the spot because you're a lawyer. Historically, you've been a consultant. You worked for three great firms. What is the one word you would use to capture your experience at Clifford Chance, McKinsey and BlackRock?

Salim Ramji

Relationships. I think it's applied to all three. The common theme about all of these firms is that they're all client-focused firms. I'll always be at a client-focused firm. I love being a fiduciary. I love serving the needs of our clients. So that's one theme. The second thing around relationships is I ended up at BlackRock because BlackRock was a client, but I'd built relationships and I really liked the culture and I liked the people and I liked what I saw from the outside, and I've come to love what I've seen from the inside over the past 10 years. The importance to me is that maintaining long-term relationships with people, including when they're on tough times, and I think some of my best relationships that I built with clients were in the periods where they weren't successful or they'd just been demoted or they'd just been fired. But they reemerged in a different place, in a different role. And if you really count on people that you believe in and you're able to maintain relationships with them over the long term, I think that's a really important thing. And that was something that the first partner in my first job at this law firm taught me about the need for long-term relationships. It's something that I've tried to continue throughout my life, not just in professional life, but with friends from high school or friends from college or friends I grew up with as well.

Simon Brewer

My final question is in the dance of life, what would you tell a 20-year-old Salim?

Salim Ramji

When I first started out, nowadays, I tell my kids and I think it's fashionable to tell your kids you should follow your passion, you should do what you're passionate about. My parents never told me that. They told me get a good job that's financially secure, and so I did that. I think that if I had known at the age of 20, just the vastness of opportunity in different places of passion that there were out there, I think that would have been tremendous. I happened to find my passion along the way. I also happened to find things that I wasn't that passionate about, but that taught me hard work and it taught me ethic and the ability to stick with things even if they weren't the most exhilarating things in a moment of time. For my 20-year-old self, I probably would have given the same advice I give to my kids around the dinner table around find out what you're passionate about, because that was not how I was operating at the age of 20. Now, the good thing is, with some good luck and some good relationships and if you maintain some curiosity, you're able to find your passions along the way, you're able to really connect your work with your ethics, and your intellectual curiosity. I think I'm able to do that today and that's what keeps me excited to come in every day and do what I do.

Simon Brewer

We've gone over the world of ETFs. I have to say that although I thought I knew a reasonable amount, you've definitely taught me some stuff that I didn't know. I'm going to take away two particular observations and that is that in the development of the world of passives and ETFs, the complexity but also the opportunities that lie within each of these asset classes expanded dramatically, whether it's the individuals or whether it's the allocators wanting to choose the slices that make up their own asset allocation, make portfolio management much, and I use the word guardedly easier, at least to be able to get specific exposures. And I'm just going to reflect on that last piece of advice, which is if there's anything that matters more, you don't know it than relationships in the corporate environment. So I said at the beginning that I thought you sounded like Tom Hanks, and nobody has ever told you that before. So I'll be interested as our listeners that now span 105 countries that they'll also go 'Yeah, no, I agree with you, Simon.' But anyway, thank you for spending time with us today. It's been the first time we've really opened the bonnet and got into the world of ETFs and passive and it's been a really illuminating story. So thank you so much for your time today.

Salim Ramji

Thank you for having me. You have a great show and I've loved listening to all of your other guests, and I'm really honoured to be part of that group. So thank you.