

Growth of the Asset Manager Industry

Faculty Sponsor: Lenore Palladino

Undergraduate Research Assistant: Britney Bourassa

University of Massachusetts Amherst, Department of Economics

Introduction

The role of asset managers and asset management is to manage financial assets on behalf of their investors which takes the decision and responsibility of deciding which funds to invest in away from the individual investor and places it on these asset managers. Over the past few decades, there has been a significant shift away from individual investment and some of that individual investment has been translated into investment through the use of different asset managers. This rise in the asset manager industry differs from the rise that has taken place in institutional investment. Along with the rise in the general asset manager industry, the concentration of asset management has also grown.

Research Question

The main goal of our research was to get a better understanding of this growth and what the effects of it have been. We knew that there was a general increase but wanted a better picture of what this growth exactly was and where it was concentrated.

Role of the Research Assistant

My role as a research assistant was to work both with previous articles that have studied the asset manager industry. I also worked in Stata to help develop a data set that will be used to describe how much of a company's funds are held by asset managers as opposed to individual investors. This data used a dataset that included information from asset manager's 13F filings. The merged data is still being worked on for future use. I also worked with a smaller WRDS Stock Ownership dataset in preparation for the work on the larger dataset.

Data and Methods

The first data set came from the Federal Reserve's Corporate Equity Holdings data. The table below shows the distribution of the overall ownership of

corporate equity from 1950 to 2018.

Sector	1950	1960	1970	1980	1990	2000	2010	2018
Households and nonprofit organizations; corporate equities; asset	93.00%	86.00%	74.00%	60.00%	48.00%	39.00%	35.00%	36.00%
Nonfinancial corporate business; corporate equities; asset	0.00%	0.00%	4.00%	8.00%	8.00%	9.00%	4.00%	4.00%
Property-casualty insurance companies; corporate equities; including those held by U.S. residual market resources; asset	1.00%	2.00%	2.00%	2.00%	2.00%	1.00%	1.00%	1.00%
Life insurance companies; corporate equities; asset	1.00%	1.00%	2.00%	3.00%	2.00%	2.00%	2.00%	1.00%
Private pension funds, including 403(b) plans; corporate equities; asset	0.00%	4.00%	8.00%	15.00%	16.00%	10.00%	7.00%	6.00%
Mutual funds; corporate equities; asset	2.00%	3.00%	5.00%	3.00%	7.00%	21.00%	24.00%	22.00%
Exchange-traded funds; corporate equities; asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.00%	6.00%
Other financial business; corporate equities; asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rest of the world; U.S. corporate equities; asset	2.00%	2.00%	3.00%	5.00%	7.00%	8.00%	13.00%	15.00%

The second data set came from Lucian A. Bebchuk's "The Specter of the Giant Three." The table below shows the percentage of corporate equity held by what he labels as the big three asset managers – SSGA, Vanguard, and BlackRock.

Index Fund	% of Corporate Equity (1998)	% of Corporate Equity (2008)	% of Corporate Equity (2017)
SSGA	1.00%	4.30%	4.60%
Vanguard	0.90%	3.60%	8.80%
BlackRock	3.10%	6.00%	7.10%
Totals	5.00%	13.90%	20.50%

Results & Discussion

From the data on the overall ownership of corporate equity, we observed that while individual households and nonprofit organizations held 93% of corporate equity in 1950, that number has since dropped to 36% as of 2018. The majority of the corporate equity that was owned by these individual households has shifted to being owned by mutual funds. Only 2% of total ownership was held by mutual funds in 1950. That number has since grown to 22% as of 2018. Private pension funds have also increased from 0% in 1950 to 6% as of 2018. This significant shift away from individual investment to investment through mutual funds, private pension funds, etc. has helped us further identify that the ownership of corporate equity has shifted greatly away from the individual and more towards the asset managers as we predicted. It also gives us a better picture of which sectors this investment is going to. The second table shows that as of 2017, SSGA, Vanguard, and BlackRock together hold 20.5% of corporate equity as opposed to

the 5% they held in 1998. What this further shows is that not only is the ownership of corporate equity greatly held by the asset manager industry, but there are also three big index funds who hold a significant portion of this corporate equity. On top of this, it is noted that institutional investors are also holding funds that are managed by these companies which adds to this increase in the industry. This research has indicated that this shift has affected the financial market by shifting the way in which companies' individual shares are held.

Conclusion

What we concluded is that our findings backed our idea that the means by which people are investing has greatly shifted and will continue to shift away from the individual and to the asset manager. There is an upward trajectory in the percentage of corporate equity that is being held by the asset managers. The data also shows the concentration of these holdings with 20.5% being held by just three companies – SSGA, Vanguard, and BlackRock. We can predict that the percentage of ownership of corporate equity by asset managers will continue to grow while the percentage held by the individual will decrease. Moving forward, the hope is that the dataset we created will give a more in-depth analysis of how much of a companies' shares are held by these asset managers. In the future, we hope to analyze the data that we've collected and study what this further shows about the increase in asset management.

References

1. Bebchuk, Lucian A. "The Specter of the Giant Three". Boston University Law Review. 2019.
2. "Corporate Equity Holdings" Dataset. Federal Reserve. 2019.