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Blackrock (BLK) Earnings Report: Q4 2015 Conference Call Transcript

The following Blackrock conference call took place on January 15, 2016, 08:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Christopher Meade; BlackRock Inc. ; General Counsel
- Gary Shedlin; BlackRock Inc. ; CFO
- Laurence Fink; BlackRock Inc. ; Chairman & CEO
- Robert Kapito; BlackRock Inc. ; President

Other Participants

- Craig Siegenthaler; Credit Suisse ; Analyst
- Michael Carrier; BofA Merrill Lynch ; Analyst
- Luke Montgomery; Bernstein Research ; Analyst
- Alex Blostein; Goldman Sachs ; Analyst
- Bill Katz; Citigroup ; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

At this time, I would like to welcome everyone to the BlackRock , Inc. fourth-quarter and full-year 2015 earnings teleconference. Our host for today's call will be Chairman and Chief Executive Officer Laurence D. Fink, Chief Financial Officer Gary S. Shedlin, President Robert S. Kapito, and General Counsel Christopher J. Meade.

(Operator Instructions)

Thank you. Mr. Meade, you may begin your conference.

Christopher Meade (General Counsel):

Thank you. Good morning, everyone. I'm Chris Meade, the General Counsel of BlackRock .

Before we begin, I'd like to remind you that during the course of this call we may make a number of forward-looking statements. We call your attention to the fact that BlackRock's actual results may of course differ from these statements. As you know, BlackRock has filed reports with the SEC which list some of the factors that may cause the results of BlackRock to differ materially from what we say today. BlackRock assumes no duty and does not undertake to update any forward-looking statements.

So, with that, let's begin.

Gary Shedlin (CFO):

Good morning. Thanks, Chris. Happy new year to everybody. It's my pleasure to be here to present our fourth-quarter and full-year 2015 results. Before I turn it over to Larry to offer his comments, I'll review our quarterly financial performance and business results. As usual, I will be focusing primarily on as adjusted

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results.

In a year characterized by significant market and FX volatility, 2015 was another strong year for BlackRock , as we generated industry-leading organic growth, maintained stable operating margins while continuing to invest in our business, and returned approximately $2.6 billion of capital to our shareholders, representing a total payout ratio of 77%. The differentiation and strength of BlackRock's diverse global investment platform once again enabled us to generate consistent and stable financial results, allowing us to continue playing offense despite global macro uncertainty. We saw strong results from our core business areas and remain committed to investing in a variety of strategic initiatives that will further enhance our client value proposition and generate long-term value for our shareholders.

In the fourth quarter BlackRock generated operating income of $1.1 billion and earnings per share of $4.75. Full-year operating income of $4.7 billion increased 3% versus a year ago. And earnings per share of $19.60 were up 1%, which included the impact of a higher tax rate in 2015.

Non-operating results for the quarter included $46 million of net investment gains, primarily driven by a $35 million unrealized gain on a strategic product equity investment. Our as adjusted tax rate for the fourth quarter was 30%, compared to a tax rate of 25.4% a year ago that reflected $39 million of nonrecurring discrete tax benefits. We continue to estimate that 31% remains a reasonable projected tax rate for 2016, reflecting changes in our geographic business mix, though the actual effective tax rate may differ as a consequence of nonrecurring items that could arise during the year.

BlackRock's fourth-quarter results were driven by $54 billion of long-term net new business, representing an annualized organic growth rate of 5% and the third highest [globe] quarter in BlackRock's history, and reflects the resilience of our differentiated business model. For the full year 2015, BlackRock generated long-term net new business of $152 billion, representing a 4% long-term organic AUM growth rate and a 6% organic base fee growth rate as faster growth and our higher fee retail and iShares businesses contributed to a favorable overall change in our base fee mix. Long-term net inflows were diversified by asset class and investment style with positive flows across these categories for the full year.

BlackRock continued to deliver top-line growth despite the challenging market as fourth quarter revenue of $2.9 billion and full-year revenue of $11.4 billion were both 3% higher than a year ago. Organic growth and improved investment performance drove increases in base fees, performance fees and Aladdin revenue, all of which reached record levels in 2015. Fourth-quarter and full-year base fees each rose 3% year over year, primarily driven by organic growth, despite over $150 billion of negative FX impact and market depreciation on our AUM over the last 12 months. FX was a significant drag in 2015, and we estimate that full-year base fees grew 6% versus 2014 levels on a constant currency basis.

Sequentially, quarterly base fees were essentially flat, despite positive organic growth due to a lower fourth-quarter AUM entry rate, the continued impact of diversion beta on our fee rate as emerging and commodities markets once again underperformed developed markets and ongoing dollar appreciation against foreign currencies. Performance fees for the fourth quarter were $169 million, up 17% from a year ago, driven by our broad suite of active offerings, but down $39 million sequentially due to a single hedge fund that delivered exceptional full-year performance and [a loss] in the third quarter. Full-year performance fees of $621 million rose 13% versus 2014, evidencing strong alpha generation across our diverse investment platform.

Fourth-quarter BlackRock Solutions revenue of $171 million was up 1% year over year and 2% sequentially. Full-year 2015 Aladdin revenue of $528 million, which represented 82% of BRS revenue, grew 11% year over year driven by several sizable client implementations, and has more than doubled since 2009. We expect continued business momentum in Aladdin driven by trends favoring global investment platform consolidation and multi-asset risk solutions.

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Our financial market advisory business ended 2015 with $118 million in revenue. Despite lower levels of opportunistic revenue post financial crisis, FMA is benefiting from a more stable revenue profile, driven by an increased number of mandates and more repeat engagements in the current market environment.

Total expense for the fourth quarter rose $90 million year over year driven primarily by an increase in compensation and G&A expense. For the full-year 2015, compensation expense increased $184 million or 5% due to higher headcount associated with our growth initiatives, higher incentive and deferred compensation, partly offset by the impact of a stronger dollar. Recall that year-over-year comparisons of fourth quarter compensation expense are less relevant because we determine compensation on a full-year basis.

Fourth-quarter G&A expense increased $23 million year over year, or 6%, primarily driven by $23 million of deal-related expense associated with strategic transactions executed in the quarter. Sequentially, quarterly G&A expense increased $91 million, primarily reflecting a planned uptick in year-end marketing and promotional expense, higher technology expense and the previously mentioned $23 million in deal related expense.

Full-year G&A expense of $1.4 billion was 2% below 2014 levels, reflecting expense awareness in a volatile market environment, notwithstanding the G&A spend in the fourth quarter. If markets stabilize, and given the impact of recent acquisitions on our run rate, we would anticipate a higher annual level of G&A spend during 2016.

Overall, total expense for 2015 increased 3% from a year ago compared to a similar increase in revenue over the same period, resulting in an as adjusted operating margin of 42.9% for the full year, flat to our 2014 level. We remain committed to generating operating leverage in our business and have expanded our operating margin by over 450 basis points since closing the BGI acquisition at the end of 2009.

However, as we've stated in the past, we also do not manage the business to a specific margin target, either quarter to quarter or year to year. The diversification and stability of our business model affords us the option of investing through a market cycle to grow share. We remain keenly focused on delivering long-term value to our shareholders by striking an appropriate balance between organically investing for future growth and practical discretionary expenses.

At times our strategic investments will also be inorganic. During 2015, BlackRock closed several transactions including BlackRock Kelso Capital Advisors, a domestic middle market lending platform, I Cuadrada, a Latin American infrastructure investor, and FutureAdvisor, a digital wealth manager. In addition, on November 3, Blackrock announced an agreement to assume investment management responsibilities for approximately $87 billion of cash and liquidity AUM currently managed by Bank of America Global Capital Management. We expect that transaction to close in the first half of 2016.

During 2015, we also returned approximately $2.6 billion to shareholders through a combination of dividends and share repurchases. As we enter 2016, our Board of Directors has declared a quarterly cash dividend of $2.29 per share of common stock, representing an increase of 5% over the prior level. Since instituting a dividend in 2003, BlackRock has grown its dividend at a compound annual growth rate of approximately 22%.

We repurchased $1.1 billion of our shares in 2015 and have now repurchased approximately 10 million shares since we instituted a consistent and predictable approach to capital management in 2013. We remain committed to this approach and a similar level of share repurchase in 2016 but could increase such amounts based on potential changes to the relative valuation of our stock price.

Our 2015 financial results reflect the benefits of our differentiated global business model. Fourth quarter and full-year net inflows of $54 billion and $152 billion, respectively, were positive in both our active and

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indexed franchises and benefited from significant flows into iShares.

Global iShares generated $60 billion of net new business in the fourth quarter and record flows of $130 billion for the year, representing full-year organic growth of 13%. IShares captured the number one share of global, US and European ETF industry flows for both the fourth quarter and the full year.

Record fourth-quarter equity iShares inflows of $48 billion were driven by demand for US equities and a broad array of developed market exposures. Fourth-quarter fixed income iShares inflows of $12 billion reflected flows into core, high yield and investment grade corporate bond funds.

BlackRock's global retail franchise saw fourth-quarter inflows of $7 billion reflecting the seasonal impact of capital gains distributions. Full-year 2015 net flows of $38 billion, representing 7% organic asset growth, were driven by diversified flows across our top four main fixed income platforms. International retail net inflows totaled $20 billion in 2015, and were paced by strong flows into international equities and unconstrained fixed income, allowing BlackRock to maintain its year-to-date number one ranking in cross border mutual fund flows.

US retail net flows of $19 billion in 2015 demonstrated resilience in a challenging year for the US mutual fund industry. BlackRock's institutional franchise had long-term net outflows of $13 billion for the quarter and $16 billion for the year, as we continue to see sizable asset allocation driven flows, both into and out of low fee institutional index products. However, we also continue to benefit from demand for higher fee active offerings as clients recognize the value added alpha-generating platform we have built across traditional and alternative active strategies. The positive fee impact of this mix shift is in line with our growth strategy and enabled BlackRock's institutional business to deliver organic-based fee growth of 4% in 2015.

We generated $4 billion of institutional flows into core alternatives during the year. Flows were broad-based across a diverse alternatives platform including infrastructure, fund of hedge funds, fund of private equity funds, and alternative solutions offerings.

We ended 2015 with another strong fund raising quarter for illiquid alternatives, raising $1 billion in new commitments. Over the last three years we've raised more than $17 billion in commitments and have nearly $11 billion of committed capital to deploy for our clients. Committed capital translate into flows and AUM as those dollars are invested and will be a source of future revenue growth.

In summary, in a year marked by periods of increased market volatility, divergent beta and significant currency movements, our diversified business model delivered consistent financial results and allowed us to continue investing for future growth. We remain confident that BlackRock's differentiated platform is well positioned to meet the needs of our clients and shareholders in the years to come.

With that, I'll turn it over to Larry.

Laurence Fink (Chairman & CEO):

Good morning, everyone. And thanks, Gary. Our fourth-quarter and full-year results demonstrated that in times of rapid change and market volatility BlackRock's diverse business model can consistently generate strong results.

Over the last year energy prices have deteriorated significantly, with the price of oil dropping to levels not seen in more than a decade. Growth in China remains sluggish, so will emerging markets, including Brazil, face significant political and economic challenges. And divergence of developed market monetary policies driving heightened volatility and rates, currency and equity markets. The Federal Reserve's action to raise interest rates for the first time in nearly 10 years marked the end of a historical period of

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monetary policy, with a combination in the US, and the beginning of an extended gradual tightening cycle.

All of these factors are leading to a much more divergent world in 2016, while higher levels of volatility ahead, as already witnessed in the first few weeks of the year. And as the investment landscape changes, our clients' needs change, as well.

The differentiation of BlackRock's core business model drives consistency and resilience in our results. This positions BlackRock to invest in our platform, investing in technology, investing in people, even in the most challenging and volatile times, and to anticipate and adapt ahead of change so that we're positioned to provide our clients with investment solutions to meet their evolving needs.

In a more fragmented investment landscape impacted by continual low rates, modest beta-driven returns, investors will search for income, they'll search for capital appreciation through a combination of both active and alternative investments, factors, smart beta strategies, and hybrid solutions. No other firm in the world can provide all of these capabilities on a single platform supported by superior risk management, technology, and investment performance. And this is what's driving a deeper connectivity with our clients than ever before and what once again drove BlackRock's fourth-quarter and our full-year results.

BlackRock generated $54 billion of long-term net flows in the fourth quarter and $152 billion for the year, representing annualized organic growth of 5% and 4%, respectively. Flows were driven by client demand for both active and indexed solutions across asset categories, asset classes, across regions. We saw $61 billion in growth in a year when most people talked about there is not demand for active strategies. We saw $61 billion in growth in our active strategies and $92 billion of growth in index and iShares flows.

We generated flows of $53 billion in equities, $77 billion in fixed income, $17 billion in multi-asset, and $5 billion in alternatives. We raised $38 billion in our retail platform, $130 billion in our iShares platforms, and in our institutional platform we raised $27 billion of active strategies. That was offset by $43 billion of low fee institutional index outflows.

What I'm particularly very pleased with is the platform and how broad it is. And it's evident in 2015 there were 13 countries where we had net inflows in excess of $1 billion. In addition, in 2015, we had a record amount of 65 different retail and iShares products generating more than $1 billion in net inflows.

The industry-leading organic growth story at BlackRock that we delivered in 2015 is in addition that we raised 11% growth rates in our Aladdin product. Alpha-driven performance fees and expense awareness translated into positive results in both the top and bottom line, even in the face of tremendous headwinds that we saw in global equity markets and FX.

BlackRock is committed in having a deep and broad understanding of the world in which we and our clients operate and invest in. Our commitment in being truly local in more than 30 countries that we operate in worldwide completely positions BlackRock to understand our clients' needs and their specific investment requirements to better help them navigate these markets. And we're in a better position, I believe, than any other firm in the world to do that.

The BlackRock investment institute provides a platform across regions, across asset classes, across investment styles for our investors to exchange the knowledge they built in local markets, debate investment topics, share expertise with a goal of generating better alpha and managing risk for our clients. This connectivity, this worldwide connectivity, also has enabled us to have a deeper dialogue and level of trust with clients around the world. This year the BlackRock investment institute touched nearly 20,000 clients globally through in person meetings, hosted conference calls on critical market events, and in in-depth publications.

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This knowledge and the connective tissue combined with the talent of our investment teams has contributed to a strong performance across our active platform. As of the end of the fourth quarter, 91% of our active taxable fixed income assets and 90% of our scientific active equity assets are above benchmarks or peer mediums for the last three years.

Throughout 2015 we continued to make progress on the revigorization and globalization of our fundamental active equity business, generating strong results for our clients, with 76% of our fundamental active equity assets above benchmark or peer medium for the one-year period, highlighted by the strong turnaround we've seen in the performance in our flagship equity dividend fund. The strength of our active performance has translated into flows. As I said earlier, we saw $61 billion of flows in 2015 in our active strategies despite a challenging year for active fund flows across our industry.

We continue to diversify our institutional active platform and deepen existing client relationships by creating hybrid solution-based strategies to solve our clients' most complex investment needs. Institutional active net flows of $27 billion in 2015 were primarily driven by fixed-income and multi-asset solutions as institutions look to BlackRock to solve their most complex investment challenges.

On the retail side, the diversification of our EMEA retail business was a significant driver of results in 2015. And BlackRock saw active net inflows from retail clients led by our European equity and our unconstrained fixed income products, our high-yield products and our multi-asset Income products. In the United States, the breadth of BlackRock's product suite across active, index and iShares resonated with our retail clients.

We remain focused on growing global iShare market share and driving global market expansion, which translated into strong flows in 2015. The fourth quarter was a record quarter for iShares as investors continue to turn to BlackRock iShares franchise which generated $60 billion in net inflows across asset classes. For the quarter and for the year, iShares captured the number one share of flows in the US, Europe globally, with 37% global market share for the full year. 2015 iShares flows was $130 billion primarily driven by developed market equities and fixed income.

The global core series saw flows of $46 billion representing a 23% organic growth. And record fixed income flows of $50 billion was concentrated in our high yield products, including investment grade corporate bonds and our high-yield funds. Fixed income is a strategic priority for iShares which led the industry in fixed income ETF flows for the quarter and for the year, driven by iShares' consistency of having 15 of the top 25 fixed income ETFs by net flows in 2015.

Fixed income market volatility rose in December. And during this time of market stress BlackRock's flagship high-yield ETF, HYG, enabled clients to transact directly with one another at known, transparent, minute-by-minute pricing with ample liquidity. More than $20 billion in HYG traded in the two weeks ending December 18, with less than $1 billion in net redemptions providing our markets and our clients substantial liquidity, with limited impact on the underlying markets.

As we look back in 2015, despite these spikes in market volatility, ETFs and specifically iShares are increasingly being relied upon by clients for transparent, liquid, cost effective investment solutions. We continue to find opportunities to learn from market events, to educate investors, and focus on the long-term needs of our clients in iShares and across BlackRock's platform by investing in areas that we believe will result in a more complete solutions offering for our clients and deliver value for our shareholders. Being aware of what is going on in the world around us, anticipating change and having the willingness to adapt is a critical part of our responsibility as a fiduciary to our clients.

Throughout the year BlackRock has made significant enhancements to our platform through a combination of investment for organic growth, for acquisitions and the evolution of our talent.

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Technology is increasingly impacting our clients and our business. In 2015 we made investments to utilize technology to gain new investment insights and to reach our clients more effectively.

We're investing in big data and techs analysis to make better portfolio management decisions across our broad platform of quantitative and fundamental investment styles. Factor-based analysis will become more prevalent as market dispersion increases. We made significant enhancements to our smart beta and factor-based investing platform, including the hiring of Andrew Ang. And BlackRock generated nearly $10 billion of smart beta net inflows in 2015, driven by iShares' minimum vol funds.

We're investing in retail technology to empower our intermediary partners for high-quality technological-enabled advice capabilities to improve our clients' investment experiences. We closed on the acquisition of FutureAdvisor in the fourth quarter. And we recently signed our first two clients, representing the first B2B contracts of their kind in the US digital wealth management space.

We continue to see strong demand for alternative solutions as investors move beyond the boundaries of traditional strategies to investments in real estate, infrastructure, other forms of real assets across the liquid platform. Our hedge fund platform has grown 9% annually over the past five years and now stands at $31 billion in AUM. And we continue to invest to broaden our platform and leveraging our top-performing internal talent to develop products organically, as well as bringing in new managers.

We remain focused on our responsibility to partner with clients in simultaneously generating long-term returns and create positive social outcomes. Over the past several years we've grown our infrastructure platform to more than $7 billion. This includes the industry leading renewable power franchise, a strong infrastructure debt capability and meaningful investments in Latin America, like our acquisition and our partnership with PEMEX. These activities offer long-term benefits to both investors and the economies, where they contribute to economic growth, it contributes to the country's job creation, and, most importantly, it contributes to a positive environmental impact.

In 2015 we continued to invest in the BlackRock Impact Platform, which manages now more than $200 million to provide investors with the opportunity to generate long-term competitive financial returns and positively impact society.

At BlackRock embracing change has always been a core part of who we are. Nearly every year we take a fresh look at the organization and reflect on ways to improve it. We then evolve the organization in anticipation of changes of our clients' needs and anticipation of the global markets.

Together with our Board of Directors we undertake a deliberate process and effort to continually position our leaders in roles that can broaden their experience and maximize their potential, both for BlackRock and our clients. This is critical in building a truly global firm. We did this in 2012 and 2014 with very positive benefits.

This week again we announced a number of enhancements to our leadership team that are part of this consistent process of developing our people and evolving our organizations to meet these challenging needs. Looking at the quality of the leaders taking on new or expanded roles, I'm incredibly proud of the depth of the talent take we have, and I believe today we have the strongest leadership team we've ever had in the history of BlackRock . And it is the quality and talent of this team that allows BlackRock to deliver the performance we did in 2015 despite the volatile markets, and positions us very well for 2016. It is this team, they are the reason that we have forged such a trusting relationship with our clients and why our clients are increasingly turning to BlackRock to solve their biggest financial challenges.

As we head into 2016, we will continue to make investments in our future. We will continue to develop our talent and seeking ways to leverage and grow our diverse platform to meet our fiduciary responsibilities to our clients, our fiduciary responsibilities to our societies where we operate, and to deliver the returns

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for our shareholders.

With that, let's open it up for questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Our first question comes from the line of Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler (Analyst - Credit Suisse):

Thanks, good morning, Larry. First question on active bond flows, I'm just wondering, given the improvement in yields over the last six months, what are you seeing across your institutional client base? And how does this compare to retail where there's been a historic reaction already to high yield bond prices, bank loan prices and global bond prices where there's been a decline?

Laurence Fink (Chairman & CEO):

The widening in spreads is a blessing for our insurance clients. That's first and foremost. Insurance companies are adding to their fixed income exposures now. As I've commented in the past, the whole insurance industry, or a good part of it, is short-term liability duration and are hoping for higher rates.

We haven't seen higher rates, obviously. We're sitting here with a very low 10-year treasury rate but we've most certainly seen a widening in credit spreads. I think as evidence of a few large bond issues that went public this week, we saw huge demand.

As spreads widen, we expect to see more demand institutionally. And as you suggested, some of the widening of spreads or the fears of higher rates are going to produce some selling, possibly from retail. But we haven't seen anything dramatic yet. We haven't seen really any dramatic outflows on iShares yet. I don't think there is any real massive change yet.

I think one thing you should be aware of, Craig, at this time, this is when you have the institutions sitting down on this year's asset allocation. You're going to start seeing behavior changes probably in February and March when they start doing the reallocations maybe. And so most certainly one would think, in some cases, some pension funds, because of decline in equities, they'll rebalance out of fixed income back into equities if they want to have consistent asset allocations.

But our performance in fixed income, I think you know we had 91% of our products above peer medium over the last three years. And that's across all our European fixed income, our US fixed income, our unconstrained products, our low duration products, mortgage products, high yield. So, we're in a pretty good position to have broad-based conversations with our clients.

Craig Siegenthaler (Analyst - Credit Suisse):

Thanks, Larry. Just as my follow-up I have an expense question here for Gary. Gary, G&A expenses have trended down two years in a row now. I heard your color that I think they're likely going to be up in 2016 but can you help us in terms of magnitude? And also given the revenue headwinds in the first quarter just from beta, do you have any wiggle room that if things get worse you can actually maybe cut a little bit into G&A too?

Gary Shedlin (CFO):

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Thanks, Craig. I think, first of all, we wanted to make sure that people understand of some of what went on in the fourth quarter. As you recall, during the year we told you we'd been under spending versus our original expectation going into 2015. And I would say that was a function initially of timing and, as the markets became more volatile during the year, frankly overall expense awareness.

The fourth-quarter G&A was clearly higher, and in fact we booked roughly a third of our annual M&P spend in the quarter alone. And as you saw, we incurred about $23 million of one-time deal expenses.

Given that elevated level of G&A, the fourth quarter is clearly not representative of a good run rate for next year. Notwithstanding that, as you saw, G&A expense was 2% below last year and I think that reflects our ability to manage the discretionary portion of our G&A expense in an uncertain market environment. And we continue to remain conscious of the tradeoff between growth and margin, especially as we think about that discretionary portion of our spending and the current market.

That being said, I think that if markets stabilize and, given the impact of recent acquisitions on our run rate, we would anticipate a higher level of G&A spend during the year. But there's obviously some discretion tied to that and we'll be watching it very carefully.

Laurence Fink (Chairman & CEO):

And, Craig, every year during the financial crisis and after we do pay attention to our margins and we navigate our expenses accordingly. And I would say that would be consistent going into 2016.

Craig Siegenthaler (Analyst - Credit Suisse):

Great. Thanks for taking my questions.

Operator:

Your next question comes from Michael Carrier with Bank of America -Merrill Lynch.

Michael Carrier (Analyst - BofA Merrill Lynch):

Hi, how you doing? Maybe just a question on -- it seems like there's some more regulatory items on the agenda, with the most recent one maybe the SEC liquidity proposal. I know you guys just submitted a comment letter.

I just wanted to get your sense on, for the industry, particularly given the market dynamics, maybe what are the pros, what are the cons? You guys mentioned the nuances between ETFs and funds.

The hard part, I think, for a lot of people in the industry is how to calculate some of these things based on different environments. So, just given your guys' position, I wanted to get your thoughts on how you think this plays out and what are some of the challenges for it.

Laurence Fink (Chairman & CEO):

This is a real difficult issue. I think the SEC is going to be broad in how they think about this issue. A, I think it is appropriate as an industry that we identify the risks associated to liquidity of every product. I think there should be an appropriate measurement that is consistent. And there should be probably different variants by product as how you think about liquidity.

And I think it's important for our investors worldwide to have some form of measurement tools so they could assess the liquidity risk associated with any one product, and then you could see if there is a sharp divergence between one fund and another in terms of liquidity. I think we learned that with the Third

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Avenue episode late last year with their divergency related to liquidity in their product. To me, that is a great example where you get -- if we had some form of measurement tool, investors who invested in products like that or funds like that could have assessed am I getting the returns necessary to offset the illiquidity that is a component of that investment strategy.

We're pretty sympathetic to all the things. The dilemma really arises for the SEC because if there is some assessment of some sort of a large liquidity pool for every product, it really then will reduce investment dollars into the markets. It will degrade returns for retail investors.

The last thing you would want is having retail investors having degradation in their returns because we are all going to be assessed some type of liquidity threshold, and then all the institutional managers will go to separate accounts that may have only 30-day redemption features. The last thing you want to do is hurt retail.

I think a measurement tool of some sort is probably correct. Beyond some type of measurement tool, having some type of cash holding. I don't have a hard, fast opinion on that but I do believe it represents some risk. And then I think there are different characteristics between liquidity of an ETF and liquidity of an open-end fund.

Our application has asked that they assess and look at the characteristics, differences between ETFs and open-end mutual funds. And we recommended to the SEC to develop a separate and comprehensive rule addressing those different investment product types and their associated risk.

This is going to be addressed probably sometime in 2016. I think there's going to be quite a bit of time for a comment period and discussion and we'll see where this goes. But we are in favor of this.

The one thing that is important, especially in an environment where markets are really unpleasant, like what we're experiencing now, one of the big issues is what are Americans doing now with their big energy savings. Are they investing for retirement? Are they sitting with more of their cash in cash?

If we could have more and more investors feel comfortable that they could invest safely and soundly, and they have a better understanding of the risk and characteristics of investing, and understand the liquidity of all the products, if that can then translate into more clients feeling good about investing for the outcome of their retirement, this is all good. This is why we are in favor of this type of narrative and dialogue. Obviously we'll have opinions on how that will play out.

Michael Carrier (Analyst - BofA Merrill Lynch):

Okay. Thanks for that. And then, Gary, just quick follow-up on the expenses. The transaction cost, I think you said $23 million, that's very clear. In terms of the normal seasonality in terms of what you see in fourth quarter versus the first, what's that normally drop off on the marketing spend, just so we understand? And you guys do that every year, meaning from the first to the fourth, but I just want to make sure that we get that.

And then if the markets do remain volatile and pretty challenging, is there any way of guiding in terms of the expense base, whether it's G&A or overall, of what's more variable, meaning you have more discretion there?

Gary Shedlin (CFO):

I wish I could give you a better answer than you're probably looking for here, Michael. I think we obviously, from an M&P standpoint, we plan a spend level during the year but, frankly, we react during the year and maintain appropriate flexibility to make sure we can get the biggest bang for our dollar, and make sure that we're not simply spending money in a time period where we don't think people

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are going to be receptive to a lot of the messages. I think Larry has talked about volatility, a lot of investors basically may sit on the sidelines. Almost nothing you're going to tell them or communicate to them is really going to change their mind.

There is an element of managing it real time and we're going to continue to do that. So, I can't really give you a whole lot of guidance there.

But I think important in terms of thinking about broader margin trends, I know you're tired of hearing me say this but we really aren't managing the business to a margin target, either quarter to quarter or year to year. We are absolutely committed, as part of our financial framework, to growing and delivering operating leverage. And I think we've shown you that we've done that.

I go back, I said this in my opening remarks, we've expanded the margin by 450-plus basis points since BGI. We've reinvested probably $1 billion back into the business. And we're going to continue to commit to striking the right balance between strategic investments and managing our spend.

It's a lot easier for everyone sitting around this table, candidly, to cut costs than it is to invest for growth. That's the hard part. And I think that the diversification of our model at the moment gives us the option to continue to invest through a market cycle when many others may be forced to pull back.

But we're not going to be blind to that. I think the key is obviously watching what's going on here and trying to determine at what point it really becomes more of a near-term item and more of a mid- to long-term, and then obviously we'll react appropriately.

Laurence Fink (Chairman & CEO):

But let me add one more thing. Our success in 2015 was directly related to the investments we made in the last few years. I think our differentiated business model has much to do with these investments.

I'm not suggesting we have five or six investments in mind for 2016 or 2017 or 2018 but I do believe we have to have the mindset of growing revenue through investments, and however, As you witness with shareholders in 2008 and 2009 we manage expenses quite extraordinarily at times when you had to do that.

So, it's going to be a mix. But we do have a mindset of growing the business and that's the differentiating factor. As Gary said, it's a lot easier to just, in cutting expenses or cutting headcount, it's a lot more bold to make the investments at the time when everybody's running away from investments. We will continue to look at both.

Michael Carrier (Analyst - BofA Merrill Lynch):

Okay. Thanks a lot.

Operator:

Your next question comes from Luke Montgomery with Bernstein Research.

Luke Montgomery (Analyst - Bernstein Research):

Good morning, thanks. Organic base fee growth has been tracking steadily and I think quite robustly at 6%. One of the key dynamics, though, is the fairly rapid growth of your core ETF series. You've been reducing fees there. I know you're targeting a different kind of investor with those products but wondered whether you expect those products to eventually get enough liquidity that maybe they'll attract more institutional interest, and whether you see that as a longer term challenge to maintaining the current level of organic base fee growth.

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Laurence Fink (Chairman & CEO):

Rob?

Robert Kapito (President):

We're going to respond to what we think investors' needs are. And certainly for the retail or buy-and-hold customer, they're looking for the core series to get more specific allocations to the generic product. And we're going to respond, and we'll respond as far as the fees go, as well. But we see that continuing to grow as it gives the client much better access to that precision instrument that they're looking for.

Institutions, on the other hand, I think we'll see. We're seeing they're expressing first in the high yield because they're yield hogs and they're looking for yield. But as we expand out the product set I think they will be looking to invest in a core series, as well.

But I don't really think that's going to put pressure on our fees, quite frankly, because the institutional set looks differently at the ETF market than the buy-and-hold set. They're looking for liquidity. So it's important that we grow these particular products so they have the liquidity, and they're willing to pay for the liquidity and access into those sectors.

It started out the global core series, which has been very successful for us this year. We raised a significant amount of assets, about $46 billion. I think that is going to expand institutionally. And we're going to also buffer that with other products that institutions are looking at to get that precision investment.

Gary Shedlin (CFO):

Luke, I might just add, just to put it in perspective, notwithstanding the growth in core, today iShares is a $1.1 trillion franchise, and the aggregate of the core on a global basis is a little over $200 billion. Today it represents probably a little less than 20% of the overall business. And keep in mind that the average fee rate for our overall iShares business today is still in the low 30%s, with that 20% obviously reflecting a much lower fee rate. So it just gives you a sense of the fee rates still in the overall book of business.

Luke Montgomery (Analyst - Bernstein Research):

Okay. Thanks. And then as a follow-up, just touching on the leadership changes you made recently, I was hoping perhaps you could expand on the decision to combine leadership for active equity and scientific active equity, and if you anticipate whether that could have a meaningful effect on how you're seeking to manage active equity products.

Laurence Fink (Chairman & CEO):

There is less distinction between the active equity business than we were getting credit for. In the scientific active equity business it's a business that we use signals data and a lot of quantitative screens for. And in the fundamental business we rely more upon our long-term views of the market, management, the product, et cetera. And we find that there's a tremendous amount of crossover between the two and overlap.

So, rather than let our own internal bureaucracy get in the way of the returns for the clients, we have these groups now working very closely together and understanding where the overlap is and utilizing that overlap to add additional alpha into the portfolios. So, I think by having these two teams really merge together you'll see better results and better alpha from the active equity business.

And it will be much less confusing to our clients as to when they come in, how we are driving alpha. And I

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think that will add to also increased interest in the BlackRock portfolio. My goal is to make sure that we are considered a very formidable manager of active equities. There will be no one that will have the span of equity products that we have across both the quantitative and the fundamental offerings.

So, yes, I'm very excited about it, And I think having this group work together has already shown us some very good results. And this year our equity performance is better than it's ever been. So we're going to continue working on coming up with new ways in the market to add alpha. So, very positive on this change that we made.

Luke Montgomery (Analyst - Bernstein Research):

Okay. Thanks a lot for taking my questions.

Operator:

Your next question comes from Alex Blostein with Goldman Sachs .

Alex Blostein (Analyst - Goldman Sachs):

Good morning, everybody. I wanted to start with a question around capital management. It looks like the dividend increase this quarter was maybe a little bit lower than what we've seen in prior several years. Is that a reflection of just the markets being a little bit choppier and the way you guys are looking at the cash flow stream over the next 12 months or just alternative uses of capital? And within the same question, Gary, your comments on flattish buyback but relative to valuation on the stock, I wonder if you could flush that out for us a little bit more.

Gary Shedlin (CFO):

Sure, Alex. On the dividend, as you know, our stated policy is to target a 40% to 50% dividend payout ratio. That has migrated somewhere between 40% back in 2013 and about 44% last year. Based on what we know today we think a 5% increase in the dividend is prudent and aligned with that philosophy.

As it relates to the buyback, I think in the current market, as I mentioned, we are going to continue repurchasing stock in an amount no less than last year. However, there's been a lot of market dislocation and we're certainly not trying to target or signal any type of beta call on this but we will be watching the relative valuation of our stock to see if it's prudent for our shareholders to potentially increase as markets evolve over the coming months.

Alex Blostein (Analyst - Goldman Sachs):

Got it. And then, Larry --.

Laurence Fink (Chairman & CEO):

Alex, let me just add one more thing related to what Gary said. I think in a volatile year, especially if you look at some of the high-paying dividend stocks today, I think you're going to see quite a few companies are going to have to lower their dividends. One of the histories of our platform, we never lowered our dividends ever, even in the financial crisis. To me it's about a discipline. It's a commitment.

As Gary said, we are always committed of having a post dividend rate of somewhere between the 40% a and 50% level and we've stuck to that level and we never -- at some years we had it a little more elevated, especially after the 2008 crisis, above that range, but obviously with the market turnaround and our business growth it became more normalized again. But, importantly, when we look at capital management, as Gary said, we do look at the combination of dividend and stock repurchases, and I think we have quite of bit of flexibility in 2016.

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Alex Blostein (Analyst - Goldman Sachs):

Right, understood. And then, Larry, just a question for you on the FutureAdvisor platform and the two relationships that you managed that you guys were able to lock in. Can you spend a minute on the type of services you'll be providing, the economics of that business to BlackRock as a whole, and then, more importantly, the opportunity that you see for yourself in that marketplace?

Laurence Fink (Chairman & CEO):

We're very pleasantly surprised how well the reception from our distribution partners related to the desire of using Future Advisor. The business proposition is the user technology, it is their name on the platform powered by BlackRock Solutions, Future Advisor, not unlike how we use Aladdin. The business proposition is they use technology to empower their advisors, ultimately to empower their clients, with better digital information.

Many of our products, all the products from our iShares platform, and we believe this will enhance our connectivity and the utilization of iShares to many of these platforms. That is the key business proposition.

Probably the most encouraging thing, I would not be surprised over the next coming months we announce a number of other licensing and agreements. It is very clear, more than ever before, our distribution partners are in need of digital advice and they're looking for different ways of connecting with their clients. And we believe the combination of the Aladdin services that we can provide, plus the digital advice through FutureAdvisor, no organization has that combination. No organization has that combination. So, it is actually allowing us to possibly expand our Aladdin business on top of the digital advice.

But let me be clear. We are paid through the utilization of our products and possibly the licensing of Aladdin products. But it sets us up to have deeper connectivity with our distribution partners and that's what we're trying to do.

Alex Blostein (Analyst - Goldman Sachs):

That makes sense. Thanks so much.

Operator:

Your final question comes from Bill Katz at Citi.

Bill Katz (Analyst - Citigroup):

Good morning, everyone. Maybe points of clarifications because a lot of my questions were already asked. Just on the relative valuation dynamic, Gary, you had mentioned, is that relative to your historical multiple, relative to the group, relative to the S&P? I'm just trying to get a sense of sensitivity about what we should be watching for there.

Gary Shedlin (CFO):

Yes, yes and yes. That was a good question, Bill.

Again, as I said, we're not trying to make -- it's not to me a call on whether beta's going to go up or down. It's a call as to whether or not we think the market is valuing our stock consistent with our growth.

I think consistency is incredibly important. We've been buying the stock all the way up from the low 200s to where we are. We haven't been looking for moments of beta weakness. And we're going to basically

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continue with that along and just be mindful if we see there's a disconnect.

Laurence Fink (Chairman & CEO):

We have a lot of flexibility, Bill.

Operator:

Ladies and gentlemen, we have reached the allotted time for questions. Mr. Fink, do you have any closing remarks?

Laurence Fink (Chairman & CEO):

First of all, I want to thank everybody. I thought the questions were quite good this morning. And sorry that we didn't have time to reach everybody but I'm sure Gary and Tom will spend the time with all of you related to further questions.

Our fourth-quarter 2015 results reflect the strength in a differentiated business model. And I think hopefully this is what resonates with all of you. It is those investments we made, it is our ability to execute and manage expenses accordingly, grow accordingly, especially in these challenging business environments. We're going to continue to invest to meet the demands of our clients, to meet the demands of society, and hopefully to deliver the long-term returns to our clients so they have a better future also.

It is incredibly important in these volatile times that everybody, all of us, focus on the long-term needs of our clients, not the short-term noise that we are experiencing every day but focusing on outcomes for our investors. I do believe BlackRock is the firm that clients are looking for that outcome conversation. And I do believe we will have greater dialogue with our clients in 2016 than we did in 2015.

With that, everyone, hopefully let's enjoy 2016 a little more and let's hopefully we can enjoy our day-to-day job in a better environment. Have a good quarter.

Operator:

This concludes today's teleconference. You may now disconnect.

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