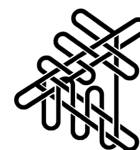

Book review

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Asset managers in the everyday

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Brett Christophers, *Our Lives in Their Portfolios: Why Asset Managers Own the World*, New York, Verso, 2023, ISBN 978-1-839-76898-9

The inexorable growth of the asset management industry over the past decade has made it one of the most prominent features of public discourse on finance. As a result, asset managers have been the subject of a growing body of academic work. The three largest asset managers, BlackRock, Vanguard, and State Street Global Partners (collectively known as the 'Big Three'), own more than 20% of the stock of the average S&P 500 company (Braun, 2021: 271). Until now, academics, journalists, and activists have largely examined the ways that asset managers wield their influence over corporations, and the broader legal, political, and economic implications which this has. In *Our Lives in Their Portfolios*, the geographer Brett Christophers argues that this existing scholarship has fixated on the ownership of financial assets while neglecting the most significant area of asset manager power: ownership of the real assets embedded in the everyday lives of much of the world's population. This power is wielded not through shareholder resolutions, but in much more tangible ways such as increases in apartment rents or utility fees. For Christophers, this asset manager ownership of housing and infrastructure constitutes not a new corporate governance regime of "Asset Manager Capitalism", but rather a transformed political economy which he calls "Asset Manager Society".

Christophers puts the starting point of asset manager society at roughly 1990, when a series of infrastructure privatizations in Australia enticed institutional investors with the promise of long-term stable cash flows and returns protected against inflation risk. A little-known financial services firm called Macquarie was the most successful early adopter of this strategy and expanded globally, inspiring a flock of imitators. It remains the preeminent infrastructure investor today, and claims that 100 million people worldwide rely every day on the roads, power grids, pipelines, and other infrastructure it owns. Along with Macquarie, Christophers identifies two other market leaders: Blackstone, the world's largest owner of real estate; and Brookfield, the opaque Canadian owner of massive housing and infrastructure portfolios. Each of these firms rose to preeminence by opportune investment in fire-sale housing assets immediately after the 2008 financial crisis. During the crisis, large numbers of distressed residential mortgages accumulated on the balance sheets of the Department of

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Housing and Urban Development, Fannie Mae, and Freddie Mac. They sold these assets off in huge batches only accessible to large-scale investors, the largest of which was Blackstone.

The post-2008 macroeconomic environment allowed asset manager society to grow and thrive. Low interest rates drove down yields in government and corporate debt markets, leading institutional investors to look elsewhere for dependable annual rates of return. They found these in real asset funds. In addition, the general acknowledgment that there existed an 'infrastructure gap' led many governments to adopt derisking policies and to fill this gap by enticing private infrastructural investment. These policies transformed the built environment to generate dependable financial returns and guarantee revenue to cancel out demand risk. This newly socialized risk imposed significant fiscal costs on governments, and state planning capacity was thereby handicapped. For example, in 2008, the city of Chicago signed a 75-year parking concession with Morgan Stanley Infrastructure Partners. As a result, the city is required to pay huge penalties to the asset manager for every parking meter it takes out of operation, making simple projects like installing new bicycle lanes prohibitively expensive.

To explain their behavior as owners, Christophers drills down into the specifics of asset manager corporate structure. Asset managers principally operate through investment funds. These funds are created as limited partnerships, legal entities separate from the 'general partner' firm managing them. Between 95-99% of the total capital for these funds is provided by institutional investors, rather than the asset manager. Most funds are closed-end, meaning that they liquidate all assets after an agreed-upon lifespan (typically no more than 12 years).

Asset managers often justify themselves by claiming that their long-term vision makes them better stewards than the public sector, which is prone to underinvestment and inefficiency. Christophers argues that the opposite is the case for structural reasons. Firstly, real asset managers rely more heavily than financial asset managers on performance-based fees. Secondly, the ubiquitous closed-end investment fund mandates liquidation after a relatively short period; Christophers cites research showing the highest returns are associated with selling assets after only 2-5 years. Infrastructure and housing investment funds generate returns not through careful stewardship and predictable income flows, but by selling their assets at a premium. From this, Christophers derives three 'golden rules' of asset manager society: maximize revenue, minimize cost of operation, and avoid capital expenditure.

Despite this inaptitude for stewardship, asset managers have amassed enormous global portfolios of housing and infrastructure, which Christophers divides into farmland, energy, transportation, telecoms, water, and social infrastructure like schools, hospitals, and prisons. Farmland, water, and social infrastructure are areas where asset manager investment remains relatively new and limited, but their presence in telecoms, transportation, and energy is substantial and sophisticated. In telecoms, asset managers have invested the most in digital infrastructure: cell towers, fiber-optic networks, and data centers. Asset manager investment in transportation is often through public-private partnership contracts and entails a right to revenue streams such as tolls or parking meter payments.

Energy is the largest infrastructure investment sector for asset managers. As of 2020, direct asset manager investment in energy infrastructure within OECD and G20 countries was $263 billion. This investment has mostly been in renewable-based power plants, in both the Global North and South. Asset managers' interest in renewable infrastructure is not merely to burnish their green credentials. Christophers explains that compared with coal- or gas-fired power plants, solar and wind farms require little upkeep, thus making them a more attractive investment. For this reason, according to Christophers (2023: 125), "the transition from fossil fuels to renewables also represents a transition to asset-manager society". Given that state-owned enterprises continue to control the majority of global coal-powered plants, whereas

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most new solar and wind capacity is controlled by the private sector, Christophers' argument appears to be correct (Prag et al., 2018: 29).

The way asset managers handle the energy transition is crucial and deserves further scrutiny. Although Christophers notes the leadership position that BlackRock has fashioned for itself in shaping climate policy, he does not comment on the efficacy of this policy for transitioning to renewable energy. Even if asset managers are leading the charge on investment in renewable energy, are they doing so at a rate fast enough to avoid catastrophic global warming? Should they be entrusted to undertake such a project themselves, without democratic input? I suspect that Christophers and I would both respond 'no' to these questions, but find it odd that they are left unanswered in the text.

A more fundamental question was raised by the journalist Doug Henwood at a panel discussion celebrating the book's release: what is the difference between asset manager society and neoliberal financialization? The shareholder value-maximizing behaviors Christophers documents in the book are not particularly novel, and numerous scholars have examined this 'corporate raiding' since the 1990s. The same critique applies to the privatization of infrastructure and other public goods; these practices pre-date the asset manager society which Christophers has sketched out. Part of the problem is that Christophers defines 'asset manager' quite broadly. Rather than just including 'pure-play' asset managers for whom investing third-party capital is a core business, Christophers also considers financial services companies and operating companies to be asset managers. Such a loose definition thus contains investment banks with asset management arms such as Goldman Sachs and private equity firms like KKR. This suggests that there is nothing specifically different or important about the position of Blackstone, BlackRock, or Macquarie.

In my view, what sets these firms apart from Goldman Sachs or JP Morgan is their relationship with the state. Christophers repeatedly notes that controlling so much of the infrastructure of daily life gives an asset manager a level of power akin to that held by a government. However, these asset managers appear mostly uninterested in actual governance. In Christophers' account, their relationship with the state is not a rivalry but a partnership. Rather than building out renewable energy systems or rivalling Chinese infrastructure investment in the Global South itself, the US government entrusts asset managers to do so on its behalf. In exchange, these asset managers are handsomely rewarded, and given privileged positions in determining certain macroeconomic policies.

However the reader chooses to define asset managers, there can be little doubt of their significance. For this reason, *Our Lives in their Portfolios* is essential reading. It provides a thorough documentation of the actual footprint of asset manager society and helpfully situates financial developments firmly within the realm of the everyday. As the importance of asset managers continues to grow in coming years, so too will the relevance of this book.

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