History of BGI

- Late 1960s: Samsonite heir graduates from Sharpe's class at Stanford. Father gives him the pension fund to prove himself. Returns to Palo Alto to find out who would apply the principles he learned. Sharpe recommends Wells Fargo team.
- Samsonite contributes $8m to the first ever index fund, launched about 1968.
  - It was equal-weighted for the first few months until they realized that cap-weighting made more sense.
  - Needed someone to fill out 500 trade tickets a week before month-end. Tickets were driven to New York in a Brinks armored vehicle. Wells hired Patricia Dunn to (among other things) fill out those trade tickets every month.
- Same group at Wells began circulating their views on the SP500, beginning 1973. Used a 3-stage dividend discount model (3-stage DCF model) to value the market. Five years later, in response to strong demand from clients, Wells turned this into a fund they managed, called US Tactical Asset Allocation.
  - If not the first, certainly among the first, purely quantitative active strategies.
- In 1979, offered a strategy called "Yield Tilts." Took advantage of a tax arbitrage in the US by overweighting the high-div stocks and underweighting the low-div stocks.
  - First ever quantitative security selection strategy.
  - Couldn't do this easily in 1970s because it required technology and data, two things that were rare back then.
- Our index business continued to operate, but didn't see too much growth. The idea was just too weird. So Wells funded a competitor in Chicago, thinking that having competition would help the idea of passive investing take off.
  - Business lost money for something like 13 years, before it first turned a profit.
- In 1985 Wells hired Blake Grossman straight out of Stanford MBA school (student of Bill Sharpe) and launched a more truly active strategy called US Alpha Tilts under Blake. This is our US large cap (500 stocks) long-only mandate, and is still alive today with about $15b in assets.
- At a client conference in 1992, Wells Fargo Nikko Investment Advisors (as the unit had become known, after a JV with Nikko) announced an all-out push into quantitative active management. Hiring spree (Grinold hired on Jan 1/1994).
- Both the index and active businesses were healthy and strong, growing slowly over the next decade. We were evangelizing two different investment ideas: Passive investing, and quantitative investing. In the end, we successfully built both business lines.
- Management felt it needed a bigger global platform to realize its ambitions, so we asked Wells to put us on the market. Barclays bought WFNIA in Dec/1995.
- At MD offsite in Aptos in 1999, brought in a BCG consultant named Lee Kranefuss to talk to us about the opportunities in exchange traded funds. Much disagreement amongst MDs about the strength of the opportunity ("If it's that good then why hasn't Vanguard already done it?"). In the end, Pattie hired Lee to build the business that became our iShares business. Our differentiator was the idea of creating a platform of comprehensive ETFs, in contrast to other who launched ETFs somewhat haphazardly. The brilliance, though, was to lock up the index providers even before 1999 in long-term deals, keeping competitors from creating ETFs that matched any index people cared about.
  - Lost money on this business for first five years.
- Both quant and passive (including iShares) businesses grew strongly during the first decade of the 2000s, up until the sale to BlackRock.

What made us unique? Our culture:

- Run by academics. Very collegial. Very consensus-driven (not saying that's good). Very slow to make big decisions because we had to analyze every major decision from every conceivable angle.
- That said, we were willing to take very big risks, and stick with them for years. The three pillars of our business were all revolutionary: Passive investing, quantitative investing and an ETF platform. Each of the three required us to evangelize for years until they became mainstream. Vere few businesses can take those kinds of major risks.
    - We could do it because we were a small part of a larger organization, both under Wells and under Barclays. Also, we had conviction and stood by our conviction not matter what others said.
- Very cerebral environment, as you'd expect of one run by academics. Research drove everything, and research was always a search for truth, not for what works.
- But this made it a great place to work and build a career. SF office, for example, was often on the lists of top places to work in the SF Bay Area.