



Morningstar Expands Research Distribution

Article published on March 27, 2009
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Morningstar is continuing to expand its presence in the institutional space, ahead of the expiration of a federal rule that brought it and other research firms millions in revenue. The firm, long known as a mutual fund data specialist, has partnered with broker Capital Institutional Services, which will market and sell Morningstar's equity research to mid-sized asset managers.

The new effort follows a year of significant growth for Chicago-based Morningstar, in which the firm bought a number of data companies and introduced a new institutional database.

The partnership comes ahead of the expiration of the Global Settlement, the enforcement agreement reached in 2003 between the SEC and other oversight agencies, and the nation's largest investment firms, to address conflicts of interest issues. Under the settlement, which runs out at the end of this July for most involved, Morgan Stanley, Merrill Lynch, Citigroup and nine others are required to purchase independent research and provide it to clients along with their own company-generated research.

Sandy Bragg, CEO and president of Integrity Research Associates, which tracks research firms, says that rule translated into about \$20 million a year for Morningstar and other research firms, such as Argus Research and Renaissance Capital, whose reports gained broader distribution under the Global Settlement.

"It's only natural for them to say, 'Well, we know that a significant chunk of revenue is going to go away. Let's explore other markets,'" he says.

Morningstar declines to say how many equity research clients it has now, but says it could reach up to 1,400 new clients by working with Capital Institutional Services, or CAPIS. CAPIS is a broker for asset managers and plan sponsors and works with a handful of independent research providers in arrangements similar to the one it has struck with Morningstar.

The partnership is capitalizing on what both firms see as continued demand for independent research from asset managers still wary that material from Wall Street research firms is too biased and costly. The effort will target mid-sized managers, as well as any manager that needs independent equity research.

"People want independent views," says **Jim Morrow**, COO at CAPIS. "The

change we're seeing is that the chaos going on in the markets is making many of these buy-side shops more interested in research and more interested in ways to get it that are less expensive than from Street firms."

Under the partnership, CAPIS will promote Morningstar's equity research to its 1,400 institutional clients. Morningstar will provide new clients both equity research on 2,000 companies and access to analysts through its subscription services, a combination Morrow says is not often offered by larger research firms.

"We're seeing a trend working out well for Morningstar, where several Wall Street research firms are cutting back on clients' ability to talk to analysts. Bulge bracket firms are saying, 'We'll give you the research reports, but you can't talk to the analysts,'" Morrow says, adding that he has noticed clients also prefer Morningstar's subscription service to a commission-based service.

Morningstar declines to say how much the service costs, as that amount varies depending on what clients want. Technology managers, for example, may subscribe to technology firm research only and not the full universe of Morningstar coverage.

Nicolas Owens, associate director of Morningstar's equity research business, says his firm and CAPIS are targeting primarily mid-sized companies with the effort, but that the research could help fill the information gap for all companies whose budgets are tight and are unable to hire internal staff to do research themselves.

"We've definitely seen an increase in demand for full-service equity research," Owens says. "Firms want an objective opinion, either to support internal research they're doing or as a new viewpoint."

Morningstar lists full-service providers on Wall Street, research boutiques, industry experts, forensic accounting specialists and valuation model software providers as the types of companies it will be competing for clients with.

Bragg says one of the challenges Morningstar will have competing with such entities is that "the attributes of research that are important to retail clients are different from the attributes important to institutional clients."

"They don't want a firm telling them what stocks to buy and what stocks to sell," he says. "What institutional investors want is unique and differentiated insights. They like strong sales support, they like having sales people understand exactly how they think. They like access to analysts, to pick their brains, and access to company management."

The joint effort comes following a year of growth for Morningstar, both at home and abroad. It launched a new institutional database, which the firm says will eventually provide 300 data points about pensions, foundations and endowments, including assets under management, performance, portfolio holdings and manager fees. The product flows from Morningstar's purchase of

InvestorForce's hedge fund and separate account database, which it merged with its own.

Last year also saw Morningstar's purchase of 10-K Wizard, a provider of SEC filing research and support services, as well as several Web-based businesses of U.K. data and research firm Hemscott; Fundamental Data, also in the U.K.; and InvestData, a provider of fund information in South Africa, among others.