

Liquidnet Inc

Liquidnet expands into research with RSRCHXchange purchase

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Stock trading network Liquidnet has bought a platform that distributes investment research, as it tries to capitalise on opportunities unlocked by Mifid II, the European regulation that came into effect last year.

Liquidnet operates a stock exchange known as a “dark pool” and made its name by bringing together fund managers to trade large blocks of shares in private, which typically results in better prices than trading via public markets. The deal to acquire RSRCHXchange, a four-year-old company based in London, expands Liquidnet’s services into the realm of investment insights for the first time since the company launched in New York nearly 20 years ago.

The acquisition, announced on Monday, reflects the ongoing impact of Mifid II, which requires fund managers to separate payments for investment research and trading commissions. The rule has upended the \$15bn industry for research, as fund managers slash research budgets and trim their lists of external providers.

RSRCHXchange does not produce its own research, but operates as an online marketplace for around 400 brokers and boutique research providers to sell their reports to 1,200 fund managers that have signed up to the platform. The company was one of the first to emerge ahead of Mifid II to help investors buy research and link them to niche providers — including analysts who left the large banks that dominate the business to set up their own companies.

“The business model of RSRCHXchange was borne out of Mifid II, but we see this as an efficiency play,” Brian Conroy, president of Liquidnet, told the FT. “We want



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investors and research brokers to link up with the right counterparties.”

The acquisition will form part of a new set of services Liquidnet hopes to offer fund managers and comes two years after the company bought OTAS Technologies, a trading analytics provider.

The purchase reflects the growing role of technology in investment research, which will eventually help fund managers automate more parts of the investing process, Mr Conroy said.

“This is a piece of a larger offering we’re hoping to put together in the next few months,” Mr Conroy said. “We will be piloting a range of tools and ideas.”

The sweeping impact of Mifid II has touched brokers and fund managers across Europe and beyond. Many large asset managers have decided to pay for research themselves in Europe to comply — a cost previously shouldered by clients, through trading commissions.

The arrangement also vaults Liquidnet into the booming market

for “alternative data” — a wide-ranging definition for information from satellite images to mobile phone location tags. Growing demand from fund managers prompted RSRCHXchange to add alternative data to its platform, mirroring similar moves from data distributors including Bloomberg.

Fund managers hope this type of data will help generate investment returns above the benchmarks they are measured against — known as “alpha” in industry jargon. Years of poor performance for actively managed portfolios compared with low-cost, passive index-based investments has lured away big chunks of their business — a trend fund managers are keen to overturn.

“Ultimately this is all about alpha,” said Vicky Sanders, co-founder of RSRCHXchange. “Asset managers want to be able to compete in a tough environment.”

Terms of the deal were undisclosed.