

# Russell Investments

## IN SEARCH OF LIQUIDITY: OPEN TRADING™

Trading in the world's fixed income markets has never been easy. Even though markets are enormous in the aggregate, large issuers often have many bonds outstanding, and many investors prefer to hold bonds to maturity, making trading volume thin and scarce for many individual issues. As a result, bond trading has traditionally been relegated to an over-the-counter market with market-making dealers at its center. And since the global financial crisis, liquidity has been squeezed further by regulations that scale back market making, as well as a pullback by many firms from what has become a restrictive business line with declining profitability.

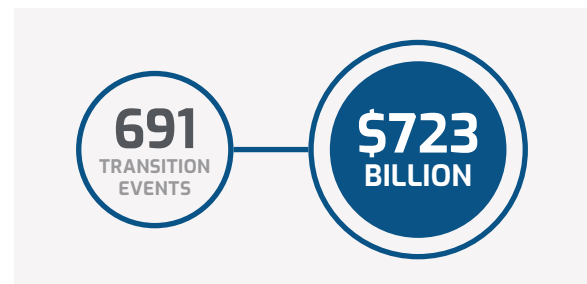
One successful solution to trading illiquid bond markets is the use of electronic trading venues, which allow for a broader universe of dealers and investors to interact in a trading ecosystem. MarketAxess introduced its electronic credit trading platform in 2000 – a major advance in facilitating trading between dealers and investors.

MarketAxess took another big step in 2012, bringing to market its Open Trading™ protocol, which allows all market participants – investment managers, broker-dealers, and other investors – to trade directly and anonymously with one another. Open Trading has attracted increasing interest, and for the full year 2017, its growing network of 705 liquidity providers responded to 2.1 million requests for prices and executed 627,000 trades,

resulting in an average daily Open Trading volume of \$970 million. Within the MarketAxess platform, 17% of 2017's investment grade volume, and 39% of high yield, were traded through Open Trading. In addition, the narrower spreads available through Open Trading saved participants an estimated \$89 million versus the average spreads for disclosed trading for the year.

## THE DEMANDS OF TRANSITION MANAGEMENT

"Open Trading contributed about 7% of all our U.S. dollar credit traded volume for 2016, and 11% in 2017," says Brandon Rasmussen, Head of Fixed Income Trading at Seattle-based Russell Investments. A leading provider of transition management across all asset classes, Russell Investments is one of the largest and most diverse fixed income traders in the industry. In 2017, **the firm managed 691 transition events with a value in excess of \$723 billion**, much of which was fixed income related.



In doing so, the firm executed bond trades in 106 countries and 33 currencies across 28 asset classes. The firm also earned *Chief Investment Officer* magazine's top ranking for transition management providers from 2013 to 2016, and in surveys by *Institutional Investor* magazine, rated lowest in transaction costs in 2015 and 2016.

In Russell Investments' U.S. dollar investment grade trading, Rasmussen explains, Open Trading made up 6% of volume in 2016 and 8% in 2017, and MarketAxess ranked as the third largest counterparty for credit in both years. High yield trading showed an even bigger impact: Open Trading accounted for 11% of volume in 2016 and 16% in 2017, making MarketAxess the leading counterparty. "That demonstrates the importance of being able to access non-traditional liquidity providers, as Open Trading made up our largest source of liquidity," Rasmussen notes.

Minimizing transaction costs is essential to a successful transition, and accordingly Russell Investments has made a science of transaction cost analysis (TCA). Beginning in the early 2000s, the firm identified the key data elements that would be needed for rigorous TCA – to document its results in transitions to clients; measure execution versus prevailing market conditions and against a variety of peer universes; maintain internal governance; and validate its execution efficacy to clients. Russell Investments partnered with MarketAxess and others in 2016 to develop a custom TCA solution that can measure executions against the market as well as peers.

"The evolution of electronic platforms has provided two crucial sources of data for TCA – an audit trail of transactions from centralized trading that aggregates executions on TRACE and Trax®, as well as from a peer universe," Rasmussen notes. "MarketAxess has done a tremendous job of making available the information we need to analyze our trading, and compare our results to our peers of asset managers, investors, and other transition providers."

In addition to providing the data for the custom TCA solution, MarketAxess implemented a custom facility for Russell Investments' reporting to the TRACE system. Russell Investments also served as a development partner for a fixed income execution management system – LiquidityBridge Aggregator® – which gathers all the liquidity of the dealers and participants in the MarketAxess system, allows for a real-time market view, and executes on trading decisions. With this perspective on the current market, Russell Investments can trade a portion of an order in Open Trading, manage partial executions and allocations, and send out requests for quotes on the remainder on the MarketAxess platform.

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– RASMUSSEN

## TRADING QUICKLY, BUT MINIMIZING MARKET IMPACT

Transition management operates within a defined time frame, Rasmussen explains: "We strive to minimize the exposure of the portfolio to a changing market, with as little impact as possible on the securities we're trading. It's a careful balance of looking for best execution within the prevailing market while managing the buys and sells. The goal is to get to the target portfolio structure efficiently, while incurring as little risk as possible."

"The sheer scale of the endeavor is where the efficiency of MarketAxess and Open Trading, and their broad reach to dealers and markets, are especially helpful," he adds. "A dozen years ago, a transition would require seven to 10 days, but today we are able to target completing 75% to 90% of a similar transaction in one trading day."

"Much of our trading seeks specific bonds," Rasmussen says, "so we are looking for liquidity in the market place, and one of the larger segments providing liquidity is asset managers. We trade with over 250 dealers globally, but Open Trading and its access to the asset management community places it as a top source of liquidity for trading investment grade securities."

## BEATING THE MARKET

Russell Investments' trading and execution results on MarketAxess have been outstanding. During 2017, MarketAxess research showed the top 20 largest fixed income managers executed at better levels than the system-wide TRACE average about 59% of the time when using the MarketAxess platform; Russell Investments found better levels for about 80% of its trades.

In its investment grade transactions on the MarketAxess platform, Russell Investments outperformed similar trades on TRACE by an average of 1.03 basis points in 2016 and 0.99 basis points in 2017, according to MarketAxess, while the firm's top 20 peers outperformed by 0.34 basis points in 2016 and 0.36 basis points in 2017. In high yield trading on MarketAxess, Russell Investments outperformed by 2.9 cents on average in 2016, versus 0.03 cents for the top 20 peers. In 2017, its average high yield outperformance increased to 4 cents, matching that of the top 20 peers.

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## BROADER MARKETS AND BETTER PRICES

Open Trading has enabled the formation of a broad ecosystem of participants, to the advantage of both dealers and asset managers. Rasmussen sees a particular benefit from the competition the network creates. "It's a win for both sides," he says: "The provider offering the bond gets access to a broad market, and the purchaser is getting an improvement in price over what the street would give."