Eaton Vance

Eaton Vance Management and Auto-Execution

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In early 2018, MarketAxess launched its Auto-Execution tool for corporate bond trading. One of the early adopters of this new tool is Boston-based Eaton Vance Management. In addition to its wide-ranging institutional and mutual fund businesses, Eaton Vance provides a separately managed account (SMA) service for individual investors, known as Corporate Ladders. Its product managers and corporate bond trading desk immediately recognized Auto-Execution's potential for reducing the handwork required for its high volume of relatively small trades, while assisting in providing best execution based on the intelligence and scope of the MarketAxess platform.

"We launched Corporate Ladders in 2015 for the retail market. Trading through the MarketAxess system, and now Auto-Execution, has allowed us to grow this product quickly and efficiently in a manner consistent with Eaton Vance's *Advanced Investing* initiative," notes Tom Luster, Eaton Vance's Director of Quantitative Strategies. Overall, the firm managed $444 billion as of June 2018. Luster adds: "Scale is critically important in the SMA business, and without the efficiency and time savings from this enabling technology from MarketAxess we wouldn't have achieved the growth in Corporate Ladders nearly as efficiently."

The SMA strategy builds customized portfolios of investment grade corporate bonds, allowing the client to specify the beginning and ending maturity dates. The strategy brings separately managed accounts to investors who would otherwise have to invest in mutual funds, and miss the portfolio transparency, possible tax advantages, and customization options of owning bonds directly.

The investment process is part fundamental and part quantitative, allowing for low account minimums, as well as enabling efficient portfolio construction at a large scale. "Position sizes are dictated by low minimum account size and market limits on individual holdings. In turn, both position size and flows drive desk volumes," explains senior fixed income trader Mike Nappi: "When the curtain comes up on the trading day, what matters is how much time a trader spends on a bond to validate the price – say 30 or 60 seconds. Auto-Execution brings that to zero, which is saving multiple weeks of people-hours."

The Eaton Vance management team started relying on MarketAxess Auto-Execution soon after its introduction in January 2018. "With Auto-Execution we have a more thoughtful approach, can keep the portfolio structure intact, and provide better service to the client," says senior quantitative analyst and portfolio manager Dan Codreanu.

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MARKETAXESS AUTO-EXECUTION

MarketAxess Auto-Execution is a key new capability on the MarketAxess electronic bond trading platform. Through its unique intelligence, and drawing on the breadth and depth of the MarketAxess marketplace, Auto-Execution carries out designated trades, freeing up traders' time for more complex transactions and credit research. At present, Auto-Execution is available for the U.S. and European high grade markets, as well as U.S. high yield and hard currency emerging market bonds.

Automated bond trading has long been available in the treasury market, but was held back in credit trading by the market's inherent lower liquidity, as well as a lack of continuous reference prices. MarketAxess has overcome these limitations by incorporating two proprietary tools – the *Composite+* pricing engine and *Relative Liquidity Score* – to create a broad-based market context for credit bonds, and enable traders to specify trade sizes and levels for automated trading.

MARKETAXESS AUTO-EXECUTION
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Auto-Execution is straightforward and resides within the MarketAxess system. (The diagram below details the steps in the process.) When an order arrives from the customer's OMS, the trader specifies criteria for a given trade's size, liquidity, and level. Auto-Execution evaluates these criteria against bids and offers, including checks for outlier prices, and when all are met, the system automatically executes a message to a dealer.

For those trades that don't clear all the criteria, traders can still execute manually. Importantly, orders that don't auto-execute are kept live in the system, so that traders don't have to re-enter the order, and the market is not distorted by having the trade appear a second time.

Auto-Execution is available with two degrees of automation. A "low-touch" version requires manual initiation by a trader, while the other is fully automated (and thus requires "no touch").

Although Auto-Execution was introduced to the MarketAxess platform just a year ago, it has become part of traders' daily workflow for a wide range of clients and trading scenarios – from Eaton Vance's application to smaller trades in separately managed accounts, to institutional portfolios at some of the world's largest asset managers.

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"Before Auto-Execution, if a client made a partial withdrawal, we might pick our least favorite bond or two and eliminate those positions," explains Tom Luster: "Today we have the ability to trade the entire portfolio."

"The traders go through the same steps in a large majority of their trades," he adds: "Auto-Execution has dramatically cut the time needed for making trading decisions, while increasing the time traders can spend looking at markets and formulating strategy."

Eaton Vance has thus been able to expand the SMA offering without building staff, according to Mike Nappi. "Our business is feeling lots of fee pressure, and there is no way for us to operate at scale without automation that leverages our portfolio management expertise."

"The traders can set their own thresholds for each Auto-Execution parameter," he explains: "It's important to understand that Auto-Execution is a tool, and that we're not trying to put traders out of business. An hour I can save in trading is an hour I can spend with colleagues in product development, or discussing how to pick bonds, or the way we allow movements in and out of the accounts."

Nappi believes that Auto-Execution is a misnomer: "People hear 'Auto' and think that when a trade hits the blotter it's done. I call it 'parameter-based trading.' We're not just trying to get volumes through – we must get best execution as well minimize trading costs." Utilizing Auto-Execution has enabled Eaton Vance to lower transaction costs, outperforming the TRACE composite by a significant margin.

Nappi adds: "We look back at our trades to see if there was an action that Auto-Execution has taken that a person would not have, and on the trades we have printed so far, the answer is no. This is another step forward toward advanced investing."

MARKETAXESS AUTO-EXECUTION

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By December 2018, 72 firms globally had adopted Auto-Execution. Daily activity is growing rapidly, and averaged 750 trades in Q4 2018, with average daily volume of $95 million. Client hit rates also are rising as traders become more comfortable with the system: About 60% of trades submitted, by both volume and value, were successfully completed by Auto-Execution.
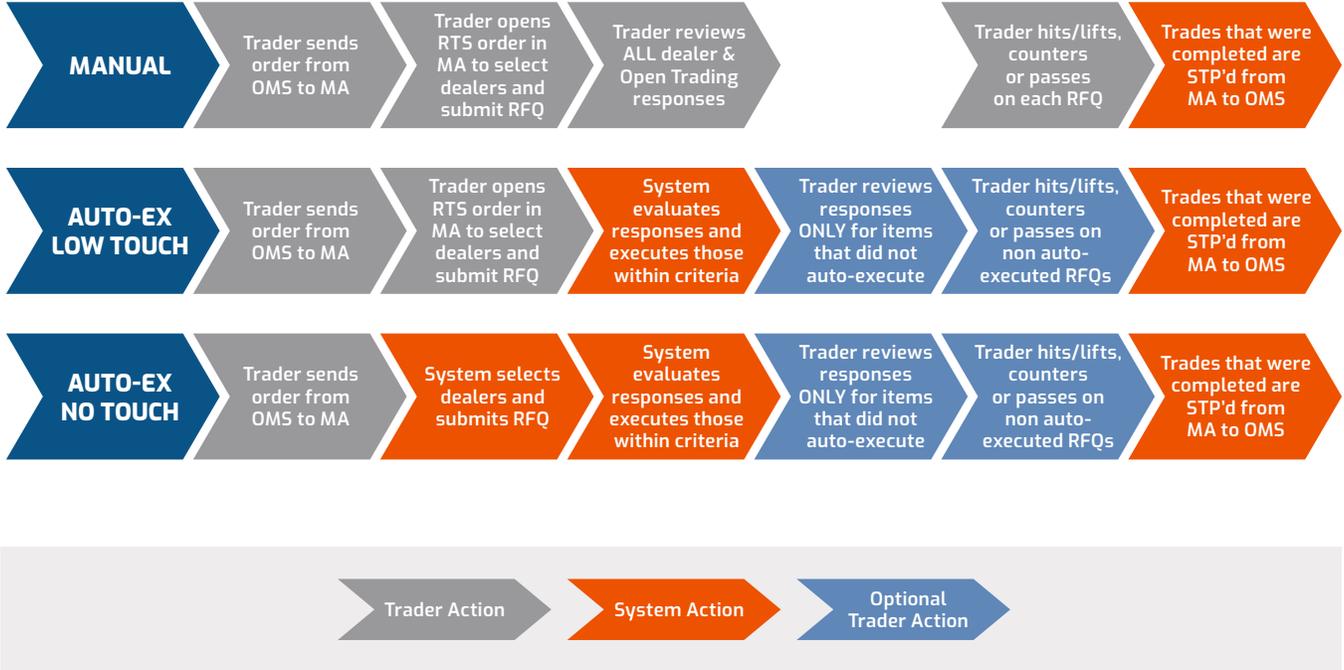
Composite+ (CP+) is MarketAxess' proprietary algorithmic pricing engine for corporate bonds, engineered to support pre-trade price discovery, liquidity provision, transaction cost analysis, crossing, and auto-execution. Updated every 15 to 60 seconds, the engine covers 90% to 95% of trading activity in its markets.

Relative Liquidity Score, also derived from the MarketAxess platform, provides an intuitive measure of current liquidity for individual bonds in comparison to similar securities within a market segment.

AUTO-EXECUTION COMPARISON TO MANUAL WORKFLOW

MANUAL	Trader sends order from OMS to MA	Trader opens RTS order in MA to select dealers and submit RFQ	Trader reviews ALL dealer & Open Trading responses		Trader hits/lifts, counters or passes on each RFQ	Trades that were completed are STP'd from MA to OMS
AUTO-EX LOW TOUCH	Trader sends order from OMS to MA	Trader opens RTS order in MA to select dealers and submit RFQ	System evaluates responses and executes those within criteria	Trader reviews responses ONLY for items that did not auto-execute	Trader hits/lifts, counters or passes on non auto-executed RFQs	Trades that were completed are STP'd from MA to OMS
AUTO-EX NO TOUCH	Trader sends order from OMS to MA	System selects dealers and submits RFQ	System evaluates responses and executes those within criteria	Trader reviews responses ONLY for items that did not auto-execute	Trader hits/lifts, counters or passes on non auto-executed RFQs	Trades that were completed are STP'd from MA to OMS

Trader Action	System Action	Optional Trader Action