

Exchange traded funds

MarketAxess muscles into ETF industry with Virtu tie-up

Deal between two groups comes amid shift in way corporate bonds are bought and sold

JOE RENNISON – NEW YORK

Bond trading platform MarketAxess is muscling into the burgeoning exchange-traded fund industry, forming a partnership with high-frequency trader Virtu to capitalise on roaring investor demand for new ways to buy and sell corporate bonds.

The tie-up between the two giants of electronic trading will see Virtu's ETF trading platform RFQhub – acquired after Virtu bought rival agency broker ITG for \$1bn in cash last year – embedded into MarketAxess, the largest electronic bond trading platform in the US.

ETFs have disrupted the traditional way investors trade corporate debt by allowing an entire index to be traded electronically like a stock, rather than the traditional model of buying and selling individual bonds.

The alliance underscores how corporate bond trading is evolving as technology plays an increasingly significant role in the market, forcing big investment banks to retool their staff and operations for a more electronic era.

Chris Concannon, president of MarketAxess, said the growth of the ETF market was a driving force for the increased interest in electronic bond trading.

“We think the growth of the ETF market is altering how the underlying bond market is traded and driving much of the automation,” he said. “The portfolio managers we provide bonds to are now interested in trading ETFs. Given that demand we are pretty excited about getting this offering in our clients’ hands.”

Large trading groups such as Jane Street and Susquehanna automate ETF trading and have looked to do

pushed to seek out more low-cost, electronic ways of trading as a result, Mr Concannon said.

The shift blurs the line between active and passive fund management, as portfolio managers paid to pick bonds increasingly look to ETFs as a way to invest.

“That’s the irony,” Mr Concannon said. “It allows active managers to use passive instruments to add to their portfolio.”

He said that MarketAxess and Virtu have agreed to a revenue sharing agreement as part of the deal, but declined to offer further details about how fees from the platform will be divided.

The new partnership will also include adding eNAV to MarketAxess's platform, which is a tool for investors to calculate the value of a basket of bonds to check if the price of an ETF matches the combined value of the underlying debt.

The announcement noted that the arrangement between the two companies was subject to them entering into a binding definitive agreement.

“It is an interesting partnership,” said Deborah Fuhr, founder of ETF data provider ETFGI. “The trading of fixed-income ETFs is an area where many investors would like to have more tools and transparency.”

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Deborah Fuhr, founder of ETF data provider ETFGI

the same in the underlying bonds, said Mr Concannon. MarketAxess said that close to 30 per cent of trading on their all-to-all electronic platform Open Trading comes from nonbank market makers.

The low cost of ETFs had also put fee-pressure on more traditional portfolio managers who have been