

Case Study

# BlueCove's expansive view of fixed income markets

Recognising the need for smarter ways to assess market dynamics and connect with pools of liquidity, **BlueCove** has been using capabilities provided by MarketAxess to apply scientific analysis and technology to bond trading.





BlueCove's products include long-short and long-only credit portfolios across high yield, investment grade, and emerging markets, covering both bonds and CDS instruments from about 4,000 issuers across 20,000 securities in the U.S and European markets

## Heather DeGarmo

Head of Product Strategy

The pace of change in the fixed income markets has accelerated in recent years and reached an inflection point, particularly in response to the volatility seen during the height of the Covid-19 crisis. Recognising the need for smarter ways to assess markets and connect with pools of liquidity, BlueCove has been using capabilities provided by MarketAxess to apply scientific analysis and technology to bond trading.

"We take a scientific approach to fixed income portfolio management," says Benjamin Brodsky, Chief Investment Officer, "Our investment process, while grounded in economic intuition, leverages technology in each component of the investment process—from defining the investment universe to trade execution—similar to what has been deployed successfully in scientific equities, but less so in fixed income, and particularly in liquid credit.

The art of the scientific process is that it is not opaque when operated properly. It is rigorously transparent and driven by research based on sound economic principles." The firm's investment process, and details of how that is supported by MarketAxess, is outlined on the table on pages 10-11.

Founded in 2018, BlueCove is a specialist manager of scientific fixed income. "BlueCove's products include long-short and long-only credit portfolios across high yield, investment grade, and emerging markets, covering both bonds and CDS instruments from about 4,000 issuers across 20,000 securities in the U.S and European markets," says Heather DeGarmo, Head of Product Strategy. BlueCove is also active in Interest Rates and FX, trading multiple types of instruments across developed and emerging markets.



The tools that MarketAxess offers, and the broader network of counterparties available through Open Trading, are essential in helping us source additional liquidity and providing a meaningful reduction in transaction costs.

— **Michael Harper**

Head of Portfolio Management at BlueCove



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**Benjamin Brodsky**  
Chief Investment Officer

“We are able to access a broad set of data inputs where we apply our proprietary insights to each security followed by a rigorous and customized portfolio construction process,” observes Chief Operating Officer & Chief Risk Officer, Nick Pierce. “Our initial steps in portfolio construction combine data sourcing with quantitative credit research. We then conduct customized portfolio construction in which each strategy is optimized to maximize alpha and minimize risk and transaction costs, subject to portfolio constraints.”

BlueCove’s investment process blends a scientific process core with experienced professionals overseeing portfolio optimization output. “The portfolio optimization process is continuous and may suggest a list of trades each day, but before execution, our Portfolio Management Team validates the output, to ensure that signal direction confirms their economic intuition and reflects market reality,” says Michael Harper, Head of Portfolio Management.

“Once we’re comfortable with the signal output from our research process, suggested trades are submitted for execution,” Harper says.

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## Fixed income is a fertile ground for applying the scientific approach

The preconditions for scientific investing in fixed income are now unarguably in place. These include, data availability, market structure, market breadth and depth of research. They have taken longer to manifest themselves in fixed income, while of a similar size to that of equities (some US \$70 trillion in each case), is far more fragmented and heterogenous. In recent years, fixed income markets have developed to the point that today they boast the conditions necessary to fully implement the scientific approach first envisaged by the pioneers of the discipline some fifteen years ago.

Research and development (“R&D”) is undertaken at each step of the investment process by BlueCove’s quantitative researchers in close collaboration with its quantitative engineers, market specialists, and portfolio managers, drawing on the depth of the BlueCove team’s experience in fixed income markets.



BlueCove's modern technology infrastructure and model framework enables the processing of thousands of inputs daily to maximize breadth and produce suggested trades to improve the risk adjusted return across strategies.

### David Forsberg

Principal Quantitative Researcher

## Collaboration with MarketAxess



When assessing markets, we benefit significantly from MarketAxess' capabilities. We're able to find deeper liquidity with more prices provided by a broad universe of counterparties.

While it's great to connect with a number of dealers on a regular basis, the all-to-all open trading network extends the traditional dealer network and allows us to reach a significant number of additional counterparties.

### Giancarlo Pesolillo

Portfolio Manager

During the market stress early in the Covid-19 pandemic, Pesolillo recalls: "When many dealers had pulled liquidity out of the market, it was hugely advantageous to have resting orders on the MarketAxess platform and be able to provide liquidity rather than demand it."

He adds: "As markets become more stressed, a typical reaction from managers might be not to trade a bond at a two-point bid-offer, because in the prior week, they could trade it for 50 cents. But we model transaction costs and liquidity dynamics and find that in times of market stress our turnover might actually increase as the opportunity set expands."



At BlueCove, scientific fixed income investing breaks down the traditional investment process into its component parts (universe definition, data sourcing, alpha sourcing, portfolio construction, trade execution and process review) and reassembles it - with people and technology assigned their optimal roles. Our proprietary systems, engineered utilising cloud-native architecture and technologies, enable us to create agile and innovative research and investing tools for scalable scientific fixed income solutions.”

— **Alex Khein**

Co-Founder and CEO at BlueCove

# Benefits of electronic trading

BlueCove's approach results in large and diversified portfolios. Harper says, "Our focus remains on isolating idiosyncratic company and issue specific risk and maximizing breadth in order to target high quality and repeatable alpha across a large number of independent positions."

"Our portfolios are highly diversified with hundreds of line items. Electronic trading facilitates buying or selling in and out of those positions easily," he adds. "The velocity and efficiency of trading through MarketAxess far exceeds what can be achieved through voice trading," Harper says.

## Portfolio Trading

Streamline your list trading

MarketAxess Portfolio Trading solution provides execution of large illiquid fixed income portfolios in an efficient and discreet manner. Traders can adjust individual line items to optimize their list as a whole—tailoring the portfolio trade to meet any unique specifications. The solution also offers pre-trade analytics using Composite+™ at the portfolio and line level.

[Learn more](#)

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## Composite+™

Check the market's pulse

A multi award-winning real-time pricing engine powered by artificial intelligence, Composite+ combines public data with data proprietary to MarketAxess, updated every 15 to 60 seconds, to generate over 30 million prices per day. Composite+ drives accuracy with coverage for 90-95% of global trading activity in its markets and has become the heart of the MarketAxess platform.

[Learn more](#)



# About BlueCove

[bluecove.com](https://bluecove.com)

BlueCove is a scientific asset management firm founded in 2018 that brings together leading fixed income industry investment and engineering professionals. BlueCove was founded with the specific purpose of delivering superior investment outcomes for investors by researching and developing state-of-the-art scientific investment processes applicable to fixed income investment management.

Ongoing efforts to build a modern and innovative culture have resulted in a cognitively diverse organisation. More information on BlueCove's culture, including its equal opportunities, diversity, and inclusion initiatives, can be found on the firm's website. BlueCove is also well-positioned to deliver ESG solutions to clients given its data-driven, firm-level scientific investment process, including a modular approach to portfolio construction. The firm is signatory to multiple ESG initiatives including the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

## Ownership mentality

The firm is driven by a culture of entrepreneurship and collaboration with all employees united by equity ownership. This alignment helps to foster a medium to long-term horizon, benefiting the firm and its clients.

## Total focus

BlueCove is exclusively focused on scientific fixed income investing, bringing together significant asset class expertise. Its offering provides investors a third choice between the historically binary decision of traditional active discretionary or passive investing.

## Modern technology

BlueCove's scientific process is paired with a state-of-the-art and custom-built technology platform which supports data processing, alpha generation, portfolio construction and decision support tools.

# BlueCove's investment process

### MarketAxess innovations and enhancements

### Process component

### BlueCove process

MarketAxess provides a broad range of credit fixed income markets—the US, Europe, and hard currency emerging markets.

Universe definition

Analysis via technology maximizes the opportunities for investment breadth across US and European credit markets.

MarketAxess provides data across every fixed income asset class. MarketAxess' proprietary products, including AI-powered predictive pricing engine, alongside enriched existing market data feeds allow the validation of strategies and then, in turn, furnish the strategy with an ongoing flow of information once launched.

Data sourcing

Technology provides processing of vast quantities of issuer financial data, as well as alternative data, on every bond in the investment universe generating the application of proprietary research signals on each bond daily.

Through the many counterparties available via the all-to-all Open Trading marketplace, MarketAxess provides superior pre-trade price discovery, levels and transaction costs, and liquidity.

Alpha sourcing

- Consistent with the Fundamental Law of Active Management, scientific investing seeks to create repeatable alpha, maximize breadth, and improve the transfer of research insights into portfolio positions.
- Every security is analyzed daily for alpha opportunity, liquidity, and transaction costs.
- Investment process reduces behavioural biases.

# BlueCove's investment process

| MarketAxess innovations and enhancements   | Process component             | BlueCove process   |
|--|-------------------------------|--|
| <p>MarketAxess data gives PMs, quants and traders the ability to better understand the market landscape pre-trade with a view to supporting optimal portfolio construction. MarketAxess data also supports post-trade analysis whether that be to assess the quality of the signal or the quality of execution.</p>  | <p>Portfolio construction</p> | <ul style="list-style-type: none"> <li>• Portfolios are built through an optimization framework to maximize alpha while minimizing risk and transaction costs within portfolio constraints.</li> <li>• The scientific process results in diversified portfolios targeting idiosyncratic alpha.</li> <li>• Validation for tradeability and economic intuition by portfolio managers.</li> </ul> |
| <p>The all-to-all <b>Open Trading</b> network enables connection to more counterparties, improves trading outcomes and lowers transaction costs for both liquidity providers and liquidity takers.</p> <ul style="list-style-type: none"> <li>• Live Markets</li> <li>• Automated Execution</li> <li>• OMS integration with essential providers</li> </ul> | <p>Trade execution</p>        | <ul style="list-style-type: none"> <li>• The Open Trading network gives access to a wider range of counterparties and bonds.</li> <li>• Through the speed and low cost of electronic trading, funds can build scale more quickly and efficiently.</li> <li>• PMs and traders can rely on MarketAxess, freeing their time for market research and more complex trading.</li> </ul>              |
| <ul style="list-style-type: none"> <li>• End-to-end continuity from pre-trade to post-trade</li> <li>• Audit trails</li> <li>• Comprehensive and customized Transaction Cost Analysis</li> </ul>   | <p>Process review</p>         | <p>Combining research with the technology platform generates a granular view of performance and risk.</p>  |



The fixed income investment process innovation starts with data and ends with trade execution. MarketAxess has been and continues to be a key driver of innovation at these two points. There is both significant and growing benefit to our collaboration.

— **Alex Khein**

Co-Founder and CEO at BlueCove



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