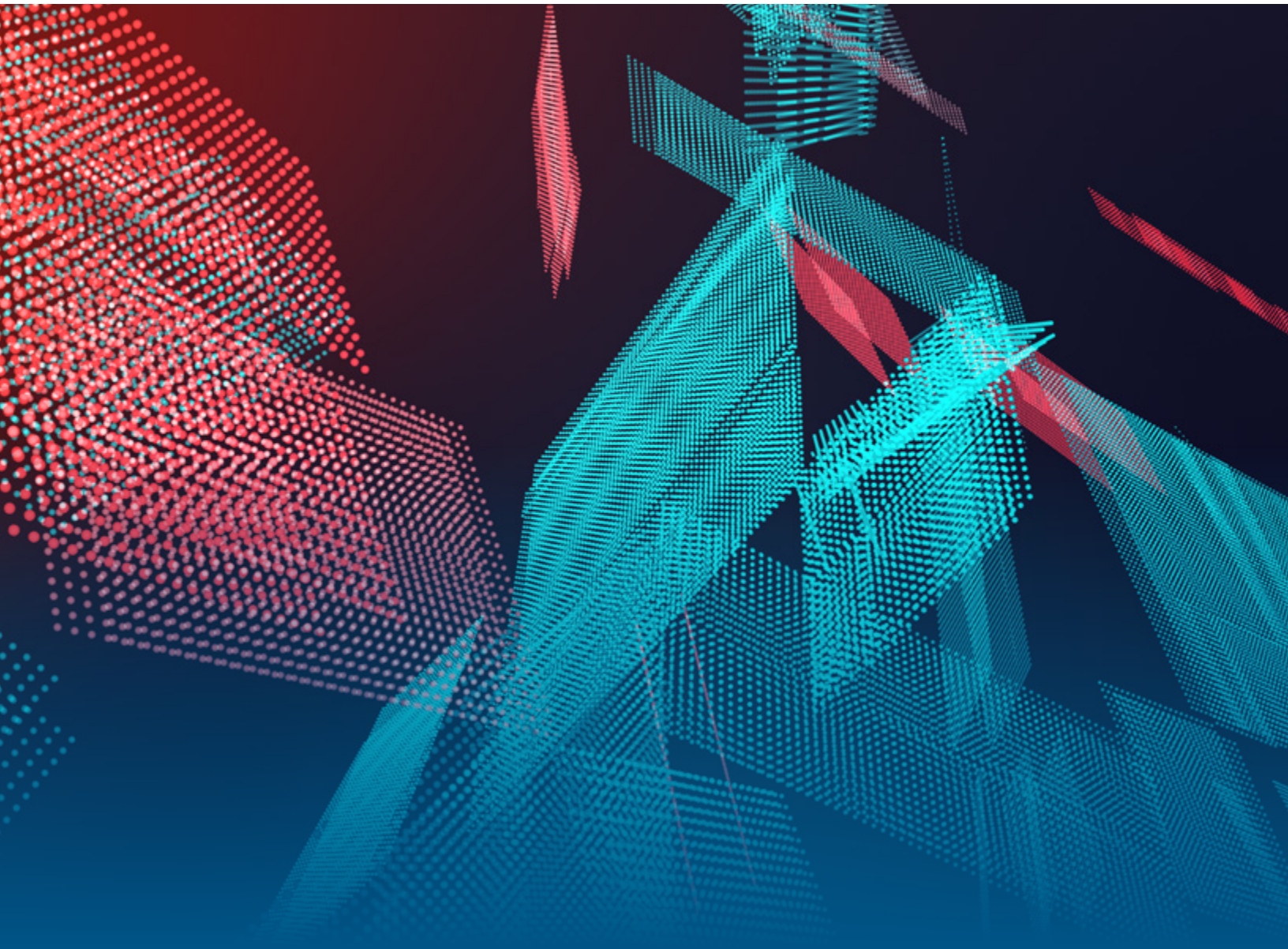


Eagle Asset Management and Automated Execution

Case Study



Eagle Asset Management and Automated Execution

MarketAxess introduced its Auto-X™ RFQ tool for automating electronic RFQs in 2018, and followed it in 2020 with Auto-Responder for incoming RFQ inquiries. Both operate through MarketAxess' wide-ranging all-to-all Open Trading™ network. Eagle Asset Management's fixed income operation, which manages a large number of separately managed accounts for smaller institutions and high net worth investors, saw the gains in productivity from automation, combined with best executions through the MarketAxess platform, and was an early and enthusiastic adopter of both tools.

"Since the beginning of Open Trading in 2012, I've had my team focused on taking advantage of technology," says Steve Chylinski. "Even though we're a small shop, we've made trading exciting and transformed our buy-side desk into an environment that more resembles a market-making environment. And for much of our trading, with MarketAxess' automated trading tools—most recently Auto-Responder—we've become a provider of liquidity."

Chylinski is the head of fixed income trading at Eagle Asset Management, in St. Petersburg, Florida, overseeing \$10 billion in client assets. "That's not a lot in fixed income, and we run just a few strategies, but we have 20,000 accounts, all separately managed," he explains. To cover them all, Eagle fields a lean team of three portfolio managers, nine traders and five analysts. "It's a heavy lift, and technology allowing us to automate as much as we have helps add value through incremental savings on our frequent trades, as well as larger savings on less liquid securities."

Chylinski sees Eagle's smaller size as an advantage in trading desk flexibility. "We're not reliant on legacy in-house technology, and have the flexibility to plug and play with new tools. For instance, with Auto-X RFQ, the moment it went live I said 'Let's go.'"



Case Study: Eagle Asset Management

Senior fixed income analyst Bishop Jordan explains the benefit: “Every day we have new accounts opening and money coming out of existing accounts, and carrying out those trades to keep the portfolios balanced and liquid is where MarketAxess’ automation has been essential. We can have our traders focus on the alpha rather than entering a bunch of manual trades throughout the day.”

Leaning on technology also has allowed Eagle to not only save time and cost, but to broaden its investment philosophy. “From the start of our use of Open Trading, we restructured how we looked at investing,” Jordan said. “As opposed to just buying CUSIPs, we took the approach of risk buckets, looking more broadly at issuers or industries. Open Trading gives the traders more leverage to buy the best bonds available, not only from dealers’ inventories, but in the breadth that all-to-all brings to the market. The data and technology allowed us to really transform our portfolios.”

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The foundation of automated trading decisions is pricing, tolerances and decision rules, which are informed by various parts of the MarketAxess research toolbox, including intelligent pricing engine Composite+™, and relative Liquidity Score tool. Notably, the MarketAxess add-in for Microsoft Excel provides simple and flexible connections from MarketAxess data resources to buy-side systems, including the ability to submit orders to an auto-responding state.

“Price transparency is the key,” Jordan explains. “We see the trades, but we also see the forecasts in Composite+, so we’re not just relying on trading desks.”

“The insights and reliability of the data are what make Auto-X so valuable. It’s right on the screws.”

—Steve Chylinski

“Composite+ is so good now—it’s amazing how accurate it is in a moving market, especially for bonds with higher liquidity scores,” says Steve Chylinski. “The insights and reliability of the data are what make Auto-X so valuable. It’s right on the screws.”

“And now Auto-Responder takes us to a higher level,” Chylinski adds. “We used to set up watch lists; our traders, and even the portfolio managers, were spending their days looking at the BWICs and how they lined up. Now we can set up the parameters of Auto-Responder and let it operate, and we’re free to do other work in the portfolios, or watch the market. And we’re now providing liquidity to the market, rather than just taking it. Auto-Responder allows us to capture spread through a mechanism that has never been offered to the market.”

Chylinski is also a supporter of MarketAxess’ beta-stage Position Builder, which adaptively bridges the efficiencies of Auto-X RFQ with the spread capture aspects of Auto-Responder. “Now we can wait for opportunities in the early part of the day with Auto-Responder, and then buy the remaining positions we need later,” he explains. “Being the liquidity provider, the prices we get are going to be much better.”

Looking ahead, Steve Chylinski expects a further trading convergence, and that the buy-side will be facing a centralized bond marketplace. “A lot has changed already, but the pieces have yet to be connected. In execution management systems, there will be a few dominant players, and the dealers will have direct feeds into them. Things will look totally different—the entire market will be visible on one screen, and investors will be able to see and respond to all the liquidity.”

Automating the bond market

MarketAxess' suite of Auto-X tools dynamically automate the trade process, and make fixed income desks more efficient in accessing the all-to-all Open Trading network.

Auto-X RFQ

Introduced in 2018, Auto-X RFQ automatically places RFQ inquiries into the MarketAxess system, according to traders' pre-set market parameters: price levels and variations, trade size, market depth and wait times. Drawing on the liquidity available in the Open Trading marketplace, Auto-X RFQ is a solution for trades with higher urgency.

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Auto-Responder

A new addition to the MarketAxess platform in 2020, Auto-Responder enables traders to automatically react to RFQ inquiries coming into the system. Like Auto-X RFQ, traders set parameters for levels and variations, size and market depth.

Auto-Responder fills a different function, however, making traders into liquidity providers setting their own levels—effectively placing them in competition with dealers, ETFs and quantitative traders.

Adaptive Auto-X

Auto-X and Auto-Responder have been combined into MarketAxess Adaptive Auto-X, a new hybrid protocol that recognizes the increase of urgency during the trading day. Traders can start a given day as liquidity providers presenting desired trades to automatically respond, and as the day evolves, rely on Position Builder to convert the status of unfilled orders to RFQs to be traded through Auto-X.

Superior Data

The backbone of both Auto-X and Auto-Responder is MarketAxess' unique and superior data sources on pricing (the Composite+ pricing engine) and bond liquidity (Liquidity Scores).

A real-time, adaptive pricing engine powered by artificial intelligence, Composite+ combines public data with trade information proprietary to MarketAxess. Composite+ updates estimated prices on bonds every 15 to 60 seconds, to generate over 30 million prices per day. These estimates have become the heart of the MarketAxess platform, and are valuable in pre-trade price discovery, transaction cost analysis and portfolio strategy testing.



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