

Auto-X™ RFQ Case Study:

Parametric Portfolio Associates



Parametric Portfolio Associates and Auto-X RFQ

In early 2018, MarketAxess launched its automatic execution tool for corporate bond trading now known as Auto-X™ RFQ. One of the early adopters of this tool was investment manager Parametric Portfolio Associates. Named after a mathematical equation commonly used to describe the relationship among points on a curve, Parametric was founded to focus on using technology to execute mathematical strategies that are customized for each client. They provide a separately managed account (SMA) service for individual investors, known as Corporate Ladders. The product managers and corporate bond trading desk immediately recognized Auto-X RFQ'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 initially trading through the MarketAxess system and then tapping into Auto-X RFQ which allowed us to grow this product quickly and efficiently," notes Tom Luster, Parametric Managing Director of Taxable SMA Strategies.



The SMA strategy builds customized portfolios of investment grade corporate bonds, allowing the client to specify the beginning and ending maturity dates. It targets investors who would otherwise have to invest in mutual funds but 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 Director of Investment Grade Corporate Trading, Mike Nappi.

The Parametric management team started relying on MarketAxess Auto-X RFQ soon after its introduction in January 2018. "With Auto-X RFQ 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.

Case Study: Parametric Portfolio Associates

"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."

—Tom Luster

"Before automatic execution functionality, if a client made a partial withdrawal, we might pick our least favorite bond or two and eliminate those positions," explains Tom Luster. He adds, "Today we have the ability to trade the entire portfolio. Auto-X RFQ has dramatically cut the time needed for making trading decisions, while increasing the time traders can spend looking at markets and formulating strategy." Parametric has thus been able to expand the SMA offering without altering staff levels, 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." He explains: "It's important to understand that Auto-X RFQ is a tool, and that we're not trying to put traders out of business."

"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 to 60 seconds. Auto-X brings that to zero, which is saving multiple weeks of people-hours."

—Mike Nappi

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." Parametric has executed hundreds of thousands of trades—often hundreds of executions in a short time frame—without a need to hire more resources, resulting in zero trade errors.

After three full years of using Auto-X RFQ functionality, Nappi can't imagine going back to trading without the automatic execution functionality. Even during periods of heightened volatility, the transition between low touch and high touch trading was seamless for the team since they weren't operating independently. Traders had the ability to tactically switch between trading styles and knew which other functionality they could tap into. A large trade doesn't always signal a high touch trade, and a small trade doesn't always signal a low touch or "no touch" trade.

Nappi believes that automatic 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 as minimize trading costs."

"Automation has changed the nature and skill set of traders beyond an implementation team. Order taking and executing is much more quantitative and generates a ton of data, choosing what you do with that data can make you a better trader and help build better products. Traders need to know data, workflow, and markets to do their job effectively moving forward."

—Tom Luster

Utilizing Auto-X RFQ has enabled Parametric to lower transaction costs, outperforming the TRACE composite by a significant margin. The proliferation of algos providing liquidity has made inquiries hypercompetitive and Auto-X RFQ gives Parametric the access to the data and liquidity needed to stay on top of the competition and bring new counterparties to the MarketAxess platform. Ultimately increasing the number of responses, the quality of those responses, and, thus, overall execution quality.

About Auto-X RFQ

MarketAxess Auto-X RFQ is a key capability on the MarketAxess electronic bond trading platform. It draws on the breadth and depth of the MarketAxess marketplace and is designed to increase efficiency and reduce execution costs while freeing up traders' time for more complex transactions and credit research. 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.

Auto-X RFQ is simple to set up and doesn't require adjusting your OMS or workflow. When an order arrives from the customer's OMS, the trader specifies criteria for a given trade's size, liquidity, and level. Auto-X RFQ evaluates these criteria against bids and offers, checks for outlier prices, and when all parameters are met, the system automatically executes the transaction.

Orders are kept live on the system so, even if an order isn't automatically executed on Auto-X RFQ, traders can still manually execute without having to re-enter the order. This also prevents market distortion by having the trade appear a second time.

Auto-X RFQ Product Set

US Investment Grade

US High Yield

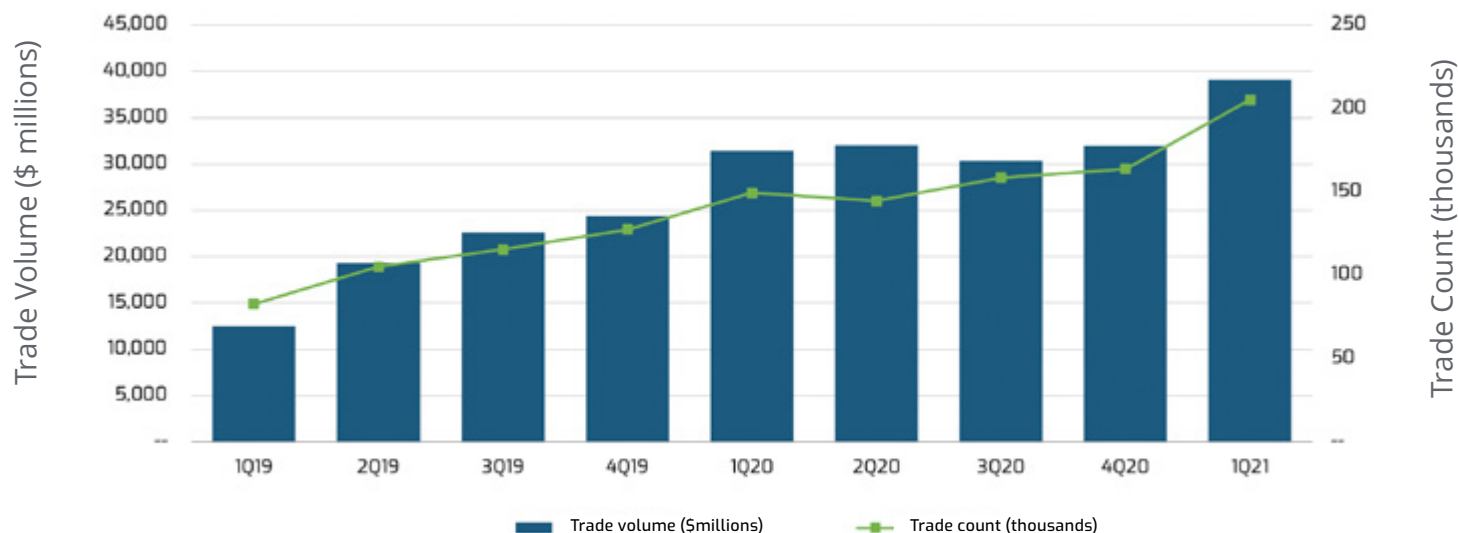
US Money Market Equivalent

European Core

European Non-Core

Emerging Markets Hard Currency

Global Auto-X RFQ Trade Volume and Count



Since the launch of Auto-X RFQ in 2018, it has become part of a traders' daily workflow for a wide range of clients and trading scenarios—from Parametric's application to smaller trades in separately managed accounts, to institutional portfolios at some of the world's largest asset managers.

As of 1Q 2021, roughly 100 firms globally had adopted Auto-X RFQ. Daily activity is growing rapidly, and averaged 3000+ trades in 1Q 2021, with average daily volume of \$593 million. Client hit rates also are rising as traders become more comfortable with the system with roughly 90% of orders successfully completed through Auto-X RFQ, by both volume and value.

Composite+™

Our AI-powered predictive pricing engine drives accuracy with coverage for 90-95% of global trading activity in its markets for over 29,000 bonds.

Relative Liquidity Score

Our intuitive measure that helps predict execution potential of over 26,000 bonds.

Open Trading®

Our all-to-all anonymous trading marketplace that allows you to tap into the most diverse sources of data.



NYC Headquarters

55 Hudson Yards Floor 15
New York NY 10001
T + 1 212 813 6000
F + 1 212 813 6390

Hong Kong

Unit 1802, 18F
Two Chinachem Central
26 Des Voeux Road, Central
Hong Kong, HK SAR China
T + 65 6916 1300

Singapore

1 Raffles Quay
#10-04 North Tower
Singapore 048583
T + 65 6916 1300

Miami

Brickell Arch
1395 Brickell Ave, 15th Floor
Suite 1520
Miami, Florida 33131

London

5 Aldermanbury Square
London EC2V 7HR
T + 44 (0)20 7709 3100
F + 44 (0)20 7709 3101

Amsterdam

Herengracht 280
1016BX
Amsterdam
T + 31 2088 88010

São Paulo

Av. Pres. Juscelino Kubitschek
1455-4 andar - sala429 - Vila Olímpia
São Paulo - SP 03178-200 Brazil
T + 55 11 3080 84000

©2021 MarketAxess Holding Inc. (the "Company"). MarketAxess Corporation and LiquidityEdge LLC are members of FINRA and SIPC. MarketAxess Canada Company is a member of IIROC. MarketAxess Europe Limited (04017160), MarketAxess Capital Limited (09777893), and MarketAxess Post-Trade Limited (01917944) are incorporated in England and Wales, and each authorised and regulated by the Financial Conduct Authority. MarketAxess NL B.V. (69592888) and MarketAxess Post-Trade B.V. (69597774) are incorporated in the Netherlands, and each licensed by the Autoriteit Financiële Markten. MarketAxess Singapore Pte. Limited (201702319R) is incorporated in Singapore and recognised by the Monetary Authority of Singapore. MarketAxess is a trading name of the aforementioned entities. This information is for institutional investor use only, does not constitute investment advice and may not be redistributed without the prior written consent of the Company or its subsidiaries. Under no circumstances may this information be distributed to retail investors. For the purposes of clients accessing MarketAxess services from EU27 countries, this information is provided by MarketAxess NL B.V. and /or MarketAxess Post-Trade B.V., as appropriate. To the fullest extent permitted by applicable law, all warranties and representations are disclaimed. All information presented herein is considered to be accurate at the time of writing, provided "as is" with no express or implied representations or warranties—including without limitation in relation to fitness for purpose, accuracy, or completeness of contents—and is only intended to provide an overview of the subject matter and not an exhaustive treatment thereof. Whilst sources of information are believed to be reliable, MarketAxess does not independently verify information obtained from third party sources. Any information presented is not intended to represent an offer or solicitation of any financial instrument. Proprietary and confidential information of the Company—all forms of copying prohibited. Further information on MarketAxess can be found on our website at marketaxess.com.