Tradeweb

Case Study

How Tradeweb helped **BBVA AM**

Since Tradeweb launched its Portfolio Trading offering in 2019, clients have grasped its many opportunities for greater efficiency through automated trading, pushing us to explore new functionality and asset classes.

Today, Tradeweb Portfolio Trading is a highly flexible protocol, shaped by our collaborative partnerships with clients and liquidity providers, and capable of solving a wide range of trading and execution challenges.

Its extensive and evolving workflow functionality is supported by best-in-class analytics, pre- and post-trade, to ensure optimal performance, serving multiple use cases, in all market conditions.

At a time when we're all having to accept the unpredictable, Portfolio Trading offers certainty, helping clients to find liquidity and execute orders quickly, securely and with a full audit trail, meeting obligations to end-clients and regulators.

Indeed, the experience of trading under lockdown conditions literally brought home the core benefits of Portfolio Trading. During 2020, simultaneous execution of multiple bond trades, with diverse credit and liquidity profiles, in various sizes and with numerous counterparties, would have been an impossible task if attempted in volatile conditions on a phone-broked and highly manual basis.

Using Portfolio Trading, Tradeweb clients profited from execution certainty and straight-through processing, transferring risk efficiently to a single counterparty, having secured best price via negotiation

Market context

Market conditions evolve over time, but the changes faced by fixed-income investors over the past decade have been particularly challenging and extreme, requiring market participants to fundamentally reassess their approach to sourcing liquidity.

A combination of factors – including unprecedent levels of central bank asset purchases via QE programmes and post-GFC regulatory reforms limiting sell-side inventory levels and risk warehousing capacity – have had a severely negative impact on secondary market liquidity for credit bonds.

For many, this led to a retreat into buy-and-hold strategies, with some investors focusing largely on tapping primary issuance. But all changes in market dynamics inevitably provoke a response, in terms of technology and business model innovation.

A key development in which Tradeweb has participated directly is the evolution of trading protocols, notably all-to-all and portfolio trading, among others. Equally significant perhaps has been the rising influence of new market participants and products. Primary among these have been the issuers and market-makers in ETFs, responding to increasing demand for more cost-effective passive investment opportunities.

BBVA Asset Management

BBVA AM is the investment management arm of BBVA Group that gathers together all the Group's asset management activities worldwide. It is a leading asset manager with about EUR 110 billion in assets. It has strong investment capabilities across equity, fixed income, multi-asset, alternative solutions, and real assets, using a multi-boutique approach with a sustainability criteria.

Pablo Fernandez
Multi-asset Dealer at BBVA Asset Management SGIIC SA

ETFs of course first took off in equities, but fixed-income ETFs have also seen a surge in demand, especially over the past three to four years. Changing liquidity conditions, shifting investor preferences and dynamic innovation have all contributed to the current situation of strengthening appetite for portfolio trading for a widening range of use cases, leading in turn to further creativity and innovation.

Portfolio trading has become intrinsic to the business models of ETF market-makers. Previously, they would seek liquidity directly from issuers either in the form of new issuance or redemptions. An initially manual, ad hoc and inefficient process has gradually been replaced by more scalable and automated workflows for the sourcing of underlying bonds, including from fellow market makers as well as liquidity-seeking buy-side clients via portfolio trading.

Recent use cases

The ability of Tradeweb Portfolio Trading to adapt to evolving needs can be seen in the diversity of a recent use case, with a client who frequently uses the platform to execute strategies across asset classes to offer greater performance and value.

Recent adopter BBVA Asset Management, a long-term client of Tradeweb, signed up to use Portfolio Trading in the second half of 2020.

Taking advantage of strong supply in recent years, the firm frequently purchases fixed-income exchange-traded funds (ETFs) as part of their investment strategies supporting the credit mutual funds they offer to customers across their branch networks.

"We were looking for a sleek, fast, auditable, and real-time solution to price the basket. So, file-sharing was eliminated as manual processing and execution are not a good combination. We approached Tradeweb and the solution fulfilled our needs and on top of that its customer service was the key aspect as they helped us to master the tool by doing demos and answering all questions. The execution overcame our expectations (traders and portfolio managers) considering the market conditions and the size of the basket. Since then, we have integrated this style of execution in our daily workday and the results prove to be very satisfactory"

Part of the appeal of ETFs to fixed-income portfolio managers is their strong trading volumes, which offer high levels of liquidity. On the downside, they are expensive to hold, compared with the underlying credit bonds, and do not necessarily offer the precise exposure sought by the portfolio manager.

Both to reduce cost and to add extra value to investors by managing their fixed-income portfolios more proactively, BBVA Asset Management was interested in accessing their ETFs' underlying cash bonds to achieve more tailored risk-return profiles.

In simple terms, this involved selling the ETFs into the market and buying the components that most suited their requirements, to slightly adjust or refine the portfolio's overall position.

However, converting a highly liquid equity asset (the ETF) into several more illiquid credit bonds on a manual basis can be a time-consuming, high-risk and, most likely, high-cost exercise, with no guarantee of achieving its objectives.

Even in high-volume periods, BBVA had previously found it a challenging and long-drawn out process to source the bonds they required, particularly when it came to domestic credits.

In contrast, portfolio trading allows the trader to package together a range of buy- or sell-orders for tender to one or more liquidity providers, significantly reducing the cost, risk and effort involved.

Because the liquidity provider is assured of commissions across a range of orders, it is typically willing to source and price much more cost-effectively compared to bidding for individual orders.

Platforms which systematise and automate the workflows involved, such as Tradeweb's Portfolio Trading solution, make it possible for users to act quickly, at scale and with discretion. This makes Portfolio Trading particularly suited to delivering liquidity cost-effectively in time-constrained situations, as well as handling large in and outflows.

"From a PM perspective, portfolio-trading of basket bonds is all about efficiency. It makes launching a new Fund or a new strategy a much more simple task. It provides us with liquidity, transparency and better execution for a large list of bonds. For us it has become an essential tool for PMs."

More specifically, Portfolio Trading offers a highly efficient channel for sourcing liquidity from ETF market-makers, which are frequently pricing credit bonds in real-time to facilitate fixed-income ETF creation and redemption.

For our Spanish client, the key objective was to cost-effectively switch out of their ETF positions, quickly then purchasing their required credit bonds. BBVA Asset Management started first by using Portfolio Trading to switch out of the fixed-income ETFs within its larger US$-denominated portfolios.

Their clients were very soon satisfied with their ability, via Portfolio Trading, to reduce their credit risk and costs, by switching efficiently out of their fixed-income ETFs, replacing them with a portfolio of credit bonds that more closely matched their requirements.

After these successful trial runs, the firm signed up to be full-time users of Portfolio Trading and now continue to explore its functionality, working with the Tradeweb team to ensure the solution met their expanding needs.

The future of portfolio trading

In many respects, portfolio trading represents a win-win for suppliers and providers of liquidity. But what does the future hold?

For all market participants, sourcing liquidity has become considerably simpler thanks to Portfolio Trading and related innovations, which are paving the way for new models and opportunities and efficiencies for service providers and their clients.

At Tradeweb, we are seeing strong and varied demand from clients. Many increasingly view Portfolio Trading as one of their key techniques for managing their credit positions, while others simply see it as the most efficient channel for sourcing liquidity ETF market-makers.

All will need to position themselves to take advantage of new dynamics. The growth of fixed-income ETF volumes, for example, is leading many market participants to look to the listed ETF market as a more effective way of hedging credit portfolios than the less-than-accurate or transparent offerings of synthetic derivatives. Investors are already being drawn to ETF options by their ability to limited exposure to interest rate and credit spreads, without incurring counterparty risk.

For these reasons, Tradeweb will not sit back and rely on the competitiveness of our market-maker network to deliver liquidity at competitive prices. We will continue to work proactively with all parties to build on existing strengths, introduce new functionality and respond to the growing sophistication of users.

In particular, we are seeing strong interest from clients for a wider range of pricing options, as well support for greater flexibility in their interactions with liquidity providers. The breadth of functionality offered to clients in future will be informed by feedback gathered via Portfolio Trading's already extensive analytics suite.

Clients are using pre-trade analytics to assess portfolio composition ahead of sending orders to the Portfolio Trading platform to secure the desired tilt from the original ETF, for example. They are also using pre- and post-trade analytics to achieve the right balance across complex and sometimes conflicting dealer selection criteria, as well as consulting in-flight analytics to review pricing from competing dealers or reconsider tactics on a particular trade.

Dialogue and partnership have always been crucial inputs into Tradeweb's product management processes, and collaboration will continue to be the cornerstone for the future evolution of Portfolio Trading.

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TRADEWEB MARKETS

We are a leading, global operator of electronic marketplaces for rates, credit, equities and money markets. Tradeweb provides access to markets, data and analytics, electronic trading, straight-through-processing and reporting for more than 40 products to clients in the institutional, wholesale and retail markets. Tradeweb serves approximately 2,500 clients in more than 60 countries.

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