

# Natixis Asset Management Finance



**While some investment managers saw recent regulatory change as an imposing challenge, Natixis Asset Management Finance viewed it as an opportunity to reshape their business and position themselves for growth.**

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Founded in 2009, Paris-based Natixis Asset Management Finance (NAMFI) was established with the objective of separating execution from investment management within the context of the new requirements of MiFID I. It specializes in executing third-party orders, as well as offering a custom-built securities lending program.

The main trading operation is based in Paris, and engages 21 traders covering a broad spectrum of asset classes and geographies. Being part of Natixis Investment Managers, which includes H2O in London and Loomis Sayles in Boston, enables NAMFI to deploy local coverage for both internal and external trading.

## ABOUT NATIXIS ASSET MANAGEMENT FINANCE

NAMFI as a credit institution is approved by the Autorité des Marchés Financiers (AMF) and authorized by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR) to provide investment services. Prior to 2009, the trading platform was integrated within Ostrum Asset Management (formerly Natixis Asset Management). NAMFI is 100% owned by Ostrum AM.

A partnership has been established with a U.S.-based affiliate that trades locally, and discussions have been initiated with a Singapore-based affiliate around local Asian coverage.



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**LAURENT ALBERT**

Deputy CEO and Global Head of Execution

As one of the most active participants on the MarketAxess trading platform in Europe, NAMFI relies on MarketAxess to fulfill two main objectives. The first is for access to the global fixed income markets for Ostrum's internal portfolio management activities, gaining access to liquidity, improving price discovery and trading efficiency, and reducing transaction costs. As of year-end 2018, Ostrum managed assets of €258 billion, 85% of which was in fixed income.

The second objective is to provide liquidity to a new business line, offering fixed income execution services for third-party asset managers. NAMFI had invested heavily in an efficient, high-capacity STP trading technology, and soon realized that incorporating MarketAxess could provide an efficient and cost effective way to access credit markets.

“Before the implementation of MiFID II in January 2018, we were sure that some firms – insurers, smaller asset managers, and wealth managers – might be challenged by the new rules, both in their ability to capture liquidity in an increasingly

shallow and fragmented market, and in meeting the increased best execution and transparency requirements, including regulatory reporting,” says Laurent Albert, NAMFI's Deputy CEO and Global Head of Execution. “We were sure that the new regulations would create opportunities.”

## MORE BONDS FROM MORE PLACES

NAMFI traded €79 billion of fixed income products during 2018, made up of 38% government bonds, 29% credit (including U.S. and European investment grade), 23% money markets, 9% high yield, and under 1% emerging market bonds, reports Doriane Geyler-Rojas, emerging markets and money market trader. “About 20% of our tickets, including all markets, were traded through MarketAxess,” she adds, “and we used the platform for 32% of our executed volume in credit bonds.”

NAMFI first turned to MarketAxess in 2012, to source the U.S. dollar investment grade and high yield markets, but has since expanded its scope to include European credit and both hard and local currency emerging market bonds.

MarketAxess makes more bonds available from more places. “A desk our size can trade with a huge list of banks, probably 50 or 60 names, but in reality our flow is more concentrated than that – probably 20 banks in corporate credit, and 30 in the emerging markets,” Ms. Geyler-Rojas notes. “The banks we're not working with are those in emerging countries – they're too small, and we don't have direct access to them. But we can reach them through MarketAxess.”

“Banks are reducing the balance sheet that they devote to bond trading,” says Laurent Albert. “In 2019, we expect banks to define ‘gold lists’ of their highest priority trading partners to whom they will provide more liquidity. It doesn't make sense for us to set up relationships with new banks, so the MarketAxess option is a real opportunity for us.”

The platform also lightens NAMFI's workload, says Doriane Geyler-Rojas. "If we're working with 50 banks, it means there are something like 500 people trying to reach us every day, and at some point you can't manage that. With MarketAxess, we're able to see the axes, and trade with the banks we have relationships with, but without having to make direct contact and speak to someone every day."

## SAFEGUARDING INFORMATION

NAMFI is a frequent user of MarketAxess' Request For Quote capability. "We rely particularly on the 'counter' option, which allows us to have discussions with counterparties. We use it to give price targets to traders, and negotiate when their prices are not far off," says Ms. Geyler-Rojas. "I'm a huge fan."

NAMFI also relies on the ability to receive partial quotes on a requested trade. Doriane Geyler-Rojas explains: "We don't face this situation all the time, but MarketAxess offers the possibility to see a partial quotation, meaning that if the market maker can't quote for the full size, he or she can show a quote for a partial quantity, which is very practical in illiquid markets."

"We've also started testing the Request For Market (RFM) option," she adds. "That allows you to ask for a bid and an offer on a trade at the same time, and your counterparty doesn't know where you are going to hit." RFM also improves control over information, as only the winning counterparty learns the side of the trade.

NAMFI also started to test MarketAxess' all-to-all Open Trading capability early in 2018. "A 'big bang' for us was the MarketAxess 'blind' option within Open Trading," says Laurent Albert. "It allows us to capture more liquidity without directly facing the provider, and keep better control of our information. The positive surprise for us was that our risk



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### DORIANE GEYLER-ROJAS

Emerging Markets and Money Market trader

department was comfortable with the new concept of trading with MarketAxess, instead of booking trades bank versus bank. It's a new way of execution."

"In Ostrum's investment style, normally we are takers of liquidity," says Ms. Geyler-Rojas. "Our portfolio managers are not accustomed to showing their axes to the market, so that may take some time, but in view of banks' reducing their capital in the market, it makes sense to offer liquidity, especially for our new business of outsourcing bond execution."

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## LEVERAGING ELECTRONIC EXECUTION

By building MarketAxess into its trading infrastructure, NAMFI has been able to expand its business with technology, while maintaining a steady head count. Laurent Albert explains: “Our strategic model is to increase our capacity, capturing more and more flow, and to offer our service to more external clients, by leveraging electronic execution.”

“Just to illustrate the idea, on our equity dealing desk in 2014 we had five people, and they traded about 80% of their volume – between €16 billion and €20 billion – through a robust technological platform. In 2018, they traded €31 billion, also with five people on the desk. And 90% or 95% of our cash equity trading goes through 12 or 13 banks.”

“I don’t know if my target is to replicate that sort of growth, but in fixed income in 2014, there were six traders for long term bonds, and three trading the money markets and forex. Today the headcount for money markets is the same, and we have only five traders for the longer duration bonds, even though our global volume, across all markets, has grown considerably.”

## OUT OF REGULATION COMES OPPORTUNITY

“MiFID I provided us with an opportunity to separate the worlds of advisory and execution,” says Laurent Albert. “We started on the equity side, and then decided to offer fixed income execution, helped by MiFID II. We first solicited clients – smaller asset managers and wealth managers – in the second half of 2018, and as of year-end we had signed on 15 firms. There are other players in this market, but we’re confident that our model is highly scalable and extremely efficient and therefore cost effective.”

“Our key selling point is our capacity to capture trading flows. If clients bring their trades to a huge player like us, it’s great for them – first to have access to the primary market, and second to achieve better prices in the secondary market. But that’s not enough – we enrich our global offering with many additional services, such as new transaction cost analysis (TCA), or sharing research ideas.”

“We think we can provide an execution service that is superior to most bank trading desks, through better knowledge of the clients,” adds Doriane Geyley-Rojas. “A global bank is working with thousands of clients, and they can’t know the portfolio constraints of each one. In NAMFI’s business model, each trader is dedicated to a small number of clients, so we know their portfolios very well – for example, whether they have reached their limits on a particular issuer. It allows us to filter the axes we are sending, and that too adds to our efficiency and the value of our service.”

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"Another strength is the way we organize our teams. We have only one desk, and it trades all assets – money markets, forex and fixed income – so everyone can share information about every client. That's not the case in a bank, where they have silos for different assets."

"In addition, when a manager client is making a multiple-leg trade, we can offer best execution on each leg," she says. "Working with a bank, they will quote one price, but the manager can't be sure they're getting the best price on all the legs. Not having to check the market on the individual pieces saves the portfolio managers a lot of time."

In addition to broader market access, asset and money managers outsourcing their trading makes sense from a cost standpoint. "Portfolio managers have plenty to do, from meeting with research sales people to constructing their portfolios," Laurent says. "Asking them to send requests and trade in the market, and having their firms develop and maintain robust in-house systems to support their execution makes no sense. A manager can transfer those flows to an external provider like us, pay a reasonable fee for the service, and let us manage the execution flow through trading venues such as MarketAxess."

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Money Market trader

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