

February 5, 2015, 11:44 AM ET

Charles River, KCG Team Up On Bond Venture

By Katy Burne

Big trades are hard to drive through the heart of the U.S. corporate bond market, with many bank-owned dealers reticent to take on risk. So some large professional investors are increasingly going around the sides.

The latest sign: Charles River, a trading software provider to institutional fund managers, announced Thursday it has teamed up with KCG BondPoint, an electronic bond platform focused on retail-sized trades operated by KCG Holdings Inc.

The tie-up will give hedge fund and asset management traders using Charles River Development's systems routine access to networks of buy and sell orders for individual bond investors, integrating trading appetite that the market historically kept separate.

"As a buyer, we are agnostic as to whether we are buying lots of retail pieces or one big block from a bank," said **Jason Graybill**, senior managing director at **Carret Asset Management LLC**, which oversees about \$1.5 billion in fixed-income assets. "If we can get a better price going through a retail platform we'll do that."

The shift comes as analysts and participants in the corporate bond market expect a pickup in electronic trading over the coming months amid challenging trading conditions in the \$7.7 trillion U.S. corporate debt market. The market has grown by 50% since 2007, while balance sheets of the largest dealers are down two thirds from their pre-crisis peak, putting traders under pressure to find new avenues to buy and sell their securities.

The average trade size above \$5 million declined 13% from 2007 to 2013, according to Barclays PLC, after increasing during the financial crisis as a result of forced selling. At the same time as those so-called block trades are becoming smaller, the percentage of blocks in the overall market has dropped.

Mr. Graybill said he often trades smaller chunks of bonds on BondDesk, a retail platform recently acquired by Tradeweb Markets LLC, but hasn't used BondPoint.

"Large block sizes are becoming more difficult to trade, so our institutional clients are taking large trades and breaking them down into smaller sizes," said Karl Kutschke, senior director in product management at Charles River Development, whose clients typically manage \$5 billion

of more in bonds. “[KCG] BondPoint pipes data directly into Charles River so the trader can see the opportunities,” he added.

KCG Holdings shares were up 0.16% in mid-morning trading, at \$12.47, according to FactSet.

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