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PRESENTATION

Operator

Ladies and gentlemen thank in for standing by. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder this conference is being recorded October 26, 2016. I would now like to turn the conference call over to Dave Cresci investor relations manager at MarketAxess. Please go ahead, sir.

Dave Cresci - *MarketAxess Holdings, Inc. - IR Manager*

Good morning and welcome to the MarketAxess third-quarter 2016 conference call. For the call Rick McVey, Chairman and Chief Executive Officer will review the highlights for the quarter and will provide an update on trends in our businesses, and then Tony DeLise, Chief Financial Officer will review the financial results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the Company's belief regarding future events that, by their nature, are uncertain. The Company's actual results and financial conditions may differ materially from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the Company's future results, please see the description of risk factors in our annual report on Form 10-K for the year ended December 31, 2015. I would also direct you to read the forward-looking statements disclaimer in our quarterly earnings release which was issued earlier this morning and is now available on our website.

Now, let me turn the call over to Rick.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Good morning and thank you for joining us to discuss our third-quarter results.

This morning we reported strong third quarter results driven by significant gains and trading volume. Third-quarter revenues were $90 million up 22% compared to the third quarter 2015. Pre-tax income for the quarter was $46 million up 31% from a year ago and diluted EPS was $0.82 up 37%. In the first few days of October we surpassed $1 trillion in year to date trading volume for the first time ever, greater than the previous record of $980 billion in all of 2015.

Q3 trading volumes of $322 billion, up 34% from a year ago were driven by record results in emerging markets volume as well as growth in open trading volume across products. Our estimated US high-grade market share was 16% in the third quarter, up from 14.9% a year ago, and estimated high-yield market share was 7%, up from 5.9%. In EM, our volume grew 61% year-over-year, compared to a 22% increase in estimated market volume reflecting strong market share gains.

Slide 4 provides an update on market conditions. Third-quarter market volumes show the normal seasonal slowdown from the second quarter levels. Strong demand for credit funds was in evidence due to persistently low government bond yields and the ECB corporate bond purchase program.

US high-grade TRACE volumes were up 19% versus Q3 2015 while high-yield TRACE volumes were down 1%. ETF high-yield activity on our platform was slower this quarter due to lower market volatility.

US high-grade new issuance was with active in Q3 and is up 29% from the same period a year ago. We expect full year high-grade issuance to be similar to last year. US high-grade and high-yield corporate debt outstanding is approximately $8.5 trillion.

The ETB's corporate bond buying program which amounted to purchases of nearly EUR2 billion per week contributed to tighter US and European credit spreads. For the second consecutive quarter fixed income mutual funds saw significant inflows while dealer balance sheets increased slightly.

Slide 5 provides an update on open trading. Open trading volumes reached another record high of $44 billion in the third-quarter with average daily volume of 90% from the same period last year. Over 105,000 all to all trades were completed during the quarter compared to 45,000 in Q3 2015.

The number of unique liquidity providers or price makers on the platform continues to increase. In the third quarter the list grew to 655 firms up from 421 in Q3 a year ago. This expanding pool of participants helped drive a 250% year-over-year increase in open trading price responses.

In the third quarter of 2016, liquidity takers saved an estimated $26 million in transaction costs through open trading on the system. As adoption rates increase, open trading cost savings for our clients will accelerate further. It is important to note that during the quarter we were able to negotiate an improved clearing rate with our third-party clearing agents, resulting in meaningful cost savings for trade settlements. Tony will walk through the detail shortly.

Open trading is growing in importance for both investors and dealers. Investors are finding unique bonds with lower transaction costs, while dealers are utilizing the platform more for both market making and as a source of liquidity for their own trading book.

Slide 6 provides an update on our international progress. Our international growth and expansion agenda is experiencing tremendous momentum driven by a significant increase in participation from international clients. European client volumes were up 70% year-over-year with 400 active client firms. We are seeing healthy growth and trading volumes across Eurobonds, emerging markets, and US credit products from European clients.

Emerging markets trading was a key driver this quarter with local market trading volumes up 86% year on year. The number of active emerging market client firms increased by 15% to 784. We're seeing increased participation from clients outside of North America with 483 firms trading.

Last week we received regulatory approval to operate in Australia, where we will begin a broader sales and marketing efforts. Firms outside of North America grew by 83% year-over-year to 220,000 increase creating a growing set of market making opportunities for our dealer clients. We are pleased with the progress we are making in expanding our global client footprint and believe we are well-positioned to capture the opportunities presented and growing global credit markets in the midst of significant regulatory change.

Now let me turn the call over to Tony for more detail on our financial results.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Thank you Rick.

Please turn to slide 7 for a summary of our trading volume across product categories. US High grade volumes were $178 billion for the quarter, up 27% from the third quarter of 2015 on a combination of an almost 20% improvement in TRACE volumes and the increase in estimated market share. Volumes in the other credit category were up 46% year-over-year. Emerging market bond volumes increased 61% due to growth and estimated market share and an increase in estimated market volumes. Gains in our Eurobond and high-yield trading volume were entirely due to a pickup in estimated market share as market volumes were flat year-over-year.

We just completed our first full quarter of trading and municipal bonds, and are pleased with the early post launch results. Clients are trading non taxable and taxable Muni's across our full suite of protocols. We have documented almost 300 investor clients and 100 dealers. And approximately 2800 trades have been executed since the launch by over 200 firms. With four trading days left in October, we expect overall average daily trading volume will be above third-quarter levels. We expect US high-grade and high-yield market share will be below third-quarter levels but well above October of last year.

On slide 8 we provide a summary of our quarterly earnings performance. The 22% year-over-year increase in revenue was primarily due to the uplift in trading volumes and resulting 25% improvement in quarterly commission revenue. If a dollar versus sterling exchange rate held constant year over year, overall revenue would have increased by an additional $2 million. On a constant exchange rate basis, information and post-trade services revenue increased by 9% on stronger data sales.

Total expenses were $44 million up 13% year-over-year. Expenses would have been up 19% if the sterling to dollar exchange rate was held constant. The quarterly and year-to-date expense growth reflects our continuing investment in people and systems to support our growth initiatives.

Our operating margin has expanded to 51% for the first nine months of 2016, and year-to-date incremental margins were 62%. The effective tax rate was 33.3% for the third-quarter, and reflects favorable adjustments, resulting from the conclusion of an IRS audit and the filing of prior year tax returns. The year to date tax rate of 34.2% is now tracking at the low end of our full-year 2016 guidance range. Our diluted EPS was $0.82 on a diluted share count of 37.8 million shares.

On slide nine, we have laid out our commission revenue, trading volumes, and fees per million. A 34% increase in trading volume and relatively flat overall fee capture led to a 35% year-over-year increase in variable transaction fees. The sequential increase in distribution fees was due to a fee plan switch by one dealer during the third quarter.

Our US high-grade fee capture was consistent with the second quarter level. For the full quarter there was no significant movement and the duration of bonds traded on the platform, trade size, and dealer fee plan mix. Our other credit category fee capture is influenced by the product mix between Eurobonds, emerging markets, and high-yield volume mixed within a product and protocol mix.

The very strong growth in emerging markets volume resulted in a mix shift within the other credit category which accounted for the majority of the $12 sequential reduction in fees per million. For the third quarter of 2016, open trading revenue was $10 million, more than double the third quarter last year. And open trading protocols were responsible for 14% of overall trading volume.

Slide 10 provides you with the expense detail. The majority of the $5.1 million year-over-year increase in expenses was due to higher compensation and benefits costs. Salaries and employer taxes and benefits were up $2.9 million and reflect the rise in headcount over the past year. The variable bonus accrual which is tied directly to operating performance was $800,000 higher.

Several important infrastructure projects are driving the year-over-year growth in professional and consulting fees, and higher advertising costs accounted for the bulk of the marketing and advertising expense increase. During the third quarter, we entered into new agreements with our third-party clearing brokers, which resulted in a reduction in transaction and other clearing costs. Third-party clearing costs as a percentage of open trading revenue declined from 22% in the first half of the year to 10% in the third quarter. At current volume levels, the annual savings amounts to approximately $4 million. Approximately half of the $2.2 million sequential decline in expenses was due to the impact of a stronger dollar. The reduction and third-party clearing costs and lower variable incentive provision accounted of for the remainder of the sequential expense decline.

On slide 11 we provide balance sheet information. Cash and investments as of September 30 were $332 million and trailing 12 months free cash flow reached a record $124 million. During the third quarter we paid a quarterly cash dividend of $10 million and repurchased 52,000 shares at a cost of $8.5 million under our share buyback program. In October the Board of Directors authorized a $50 million increase to the share repurchase program. Based on the third-quarter results our Board has approved a $0.26 regular quarterly dividend payable on November 23 to record holders on November 9.

Now let me turn the call back to Rick for some closing comments.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Thank you Tony.

Our third-quarter results reflect continued growth in core US credit products and an expanding footprint internationally. Open trade solutions continue to gain momentum with dealers and investors. We see significant opportunities ahead as global credit market participants cope with a growing set of new regulatory requirements.

Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from Patrick O'Shaughnessy with Raymond James. You may begin.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Good morning, guys.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Good morning, Patrick.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

A question on block trades. I don't think you guys addressed it within your slide presentation, but I know some coverage of your block trade market share growth over the past year. I'm curious on that progressed during the third quarter and what you are seeing there that makes you positive about the Outlook.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Sure. Thanks, Patrick.

For the full quarter our block trading percentage of what was reported to FINRA TRACE continued to be around 9%. So was still a very healthy total in terms of the block trades that we are in the middle of. It wasn't dramatically different from the second quarter.

And remember, a third quarter increase in issuance versus Q3 of last year drove a lot of the block trading activity in the first weeks after issuance and much of that trading continues to be conducted through the underwriters. But we are, as you know, continuing to invest very heavily in the protocols around block trading. We are encouraged by what we see in terms of the interest and acceptance of those, and we are optimistic that we can grow share in that category.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it. Thanks.

And then a quick one for Tony here. Tony, when you renegotiate these clearing contracts for open trading, I'm sure they're not just giving you a lower rate because you're a good guy. Is there any give back for the clearing firms are benefiting from, or is it just a one way better deal for you guys?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

To be honest, it was a conclusion of a process. We did evaluate third-party clearing alternatives. We did go out with an RFP process. We ended up executing these new agreements. What ended up happening, it was a significant reduction in ticket fee and other clearing costs.

Going forward, there is a chance that we can drive down those clearing costs further. Under these agreements there are some volume breakpoints. We are not there yet. But we will continue to try and drive these costs down.

And prospectively what you saw in the third quarter, I mentioned that clearing costs as a percentage of open trading revenue was around 10%. In the near term, think about it in that range in that 10%, 11%, or 12% range prospectively, and again, chance to drive it down further as volume picks up.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it. Thanks.

Operator

Thank you. Our next question comes from Kyle Voight with KBW. You may begin.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hi, good morning.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Good morning, Kyle.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

I had a question on the commentary around the Muni offering, an uptake there, I think you launched some additional functionality last month in the Muni space specifically. Are you seeing any early signs of client upticks with those protocols specifically? And then just a similar question on the leverage loan and the multi dealer product that launched earlier this month, just wondering if you could give any color on the very early days of that launch and the client feedback thus far?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

You know Kyle on the Muni side it is a continuing process. So we are continuing to at clients on to our dealers to get permissions in place and we are continuing to build out the functionality. And we do have at this time we have full suite of protocols up and running, disclosed request for quote market list open trading acts as they are up and running now.

We are encouraged by the uptake. We just exceeded $1 billion for the year in Muni trading. We are seeing bigger and bigger days across the platform and broader participation. So we are encouraged and having said that it is still a process. It is still early in the launch. We are still working through permissioning and we will continue to make enhancements. We are listening to clients. We are encouraged by the early results here.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

And then just on the leverage loan product, as well.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

The leverage loan is brand-new. We're just a couple of weeks into the launch. And this one, we have talked about it before, this one really is an extension of what we're doing in the high-yield markets. It is generally the same traders and liquidity providers in the high-yield market are also running loan books. Early days, we will have more to report on the upcoming quarters. Just think about it as an extension of high-yield rate right now.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Sorry if I missed this, but on the tax rate, I'm just wondering if you could quantify the impact of the one-time or nonrecurring items? The way to the completion of the audit for last year's financials?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

On the tax rate there was a little bit of noise in the third quarter. The better way of looking at the tax rate, if you think about last year's tax rate was 35%. Right now we are tracking it close to 34%. And I'd say that the one-time piece of it, you know we did have one of these cycle audits from the IRS, a multi-year cycle audit.

And the annual impact from that favorable outcome is about 0.1 to the effective tax rate. For the quarter it was bigger. It was about 0.5. If you think about it on an annual basis it is about 0.1. So basically it's not really moving the tax rate.

The bigger influences on the tax rate really are the income mix between US and foreign, because it's such a huge Delta between the tax rate here in the US and the tax rate outside of the US. When I say huge Delta think about the US roughly 40% and outside the US is roughly 20%. It really drives that tax rate is that income mix. Short answer on the one-time, a little bit of an effect on the third quarter. Full year, very, very small.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. And the last one for me is, really just I want to touch on the competitive landscape. A large exchange that currently doesn't have a significant offering in the cash corporate bond space has recently talked about getting into the business. And then separately Bloomberg News reported that some of the dealer investors and trade web are considering selling their stakes. Can you just talk about these two recent developments, the potential impact on the competitive environment, given that both could create competitors with little dealer influence. And then lastly if there's anything that you believe MarketAxess need to do ahead of this. Thanks.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Sure. I would be happy to take that one.

Listen, you have heard us say for years now that we think the global credit trading opportunity is a very large one. And in our estimate the adoption rates are accelerating. You see solid growth across products. So it would only be natural that large exchanges would be an interested in our space. So we're not at all surprised by that. We expect competition to continue to grow.

And we're doing everything we know of to continue to invest so that our market position strengthens, which in the case of year to date results, we believe, that has been the case. So very, very large market opportunity and none of us would be surprised to see investments by exchanges and others continue.

With respect to the media reports, on Tradeweb, which I assume you are referring to, we are not in possession of any information beyond what all of you have read in the media. The only thing I would say on that is that there has been a multi-year trend of dealers exiting trading venues and multi-dealer consortiums. Two recent examples of that would be Market and Bats. So we have seen this take place over years. So it wouldn't be a surprise if those discussions are going on. But beyond that, we really don't know anything about it.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Thank you very much.

Operator

Thank you. Our next question is from Chris Shutler with William Blair. You may begin.

Chris Shutler - *William Blair & Company - Analyst*

Hey guys. Good morning.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Good morning, Chris.

Chris Shutler - *William Blair & Company - Analyst*

First could you maybe just review the comments on the high-grade variable transaction fee per million again. I think it was flat quarter over quarter about 189, which is meaningfully below where it has been the past few years. But consistent with Q2. Just trying to gauge how sustainable that current level is. Thanks.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Chris, the fee capture was really flat compared to the second quarter. There was no -- a bunch of pluses and minuses there. You had years of maturity was a little lower, and yields a little bit higher and some protocol mix. But pluses and minuses negated each other. I'm not sure I heard what you said, but looking at fee capture over the past three years and this is what we reported here 189 is actually the highest we have reported in the past three years in terms of fee capture.

It is difficult to predict where this fee capture is going, because it's duration-based, trade size matters, dealer mix matters, floating rate note activity matters, the protocol matters, so it is tough to predict where this fee capture will go. We look at years to maturity which is a big influence. Where we are right now is smack dab in the middle of the post crisis range of 7.5 to 10 years.

Yields are still low. All variable plan dealers are still winning trades. This is so much at influence and it is hard to predict where it is going to end up

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Chris Shutler - *William Blair & Company - Analyst*

Okay. Fair enough.

And in open trading it looks like the number of market list responses jump meaningfully in the quarter. Kind of similar to what you saw back in Q1. I think back then the explanation was there was one client that rolled out an auto responding tool to respond to prices.

Was that the same type of thing here? Was this like an algorithmic trading firm or ETF market maker? I'm just trying to better understand what drove the route there.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Across the entire system we're seeing a significant increase in the investment in automated trading. And we think this is a very positive development in terms of a likely growth and adoption of electronic trading in general.

And arguably the velocity of trading in credit markets. And when you look at it, the investment is taking place on both sides. Investors are working very hard to digest and automate more data and trading information from our platform. And dealers of investing very heavily both traditional dealers and new market making firms as well. And so we see this as a very positive development and that it's certainly a contributor to the large jump in price responses that you see during the third quarter.

Chris Shutler - *William Blair & Company - Analyst*

Okay. Thanks. And then just one last one. A lot of the banks put up pretty good FIC numbers this quarter. A lot of that may not be related to bonds. But I just want to get your take on that dynamic and how it played out into your results.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

I don't think that there has been a strong correlation of the two. The bank results were very good year-over-year. In the third quarter, a couple of things that we hear anecdotally you heard us talk about what was a very good quarter in new issuance for the credit markets. That is a bit unusual during the summer months. But almost a 30% increase year over year in new issuance and underwriting revenues.

There was also, post Brexit, there was more volatility in certain markets, most notably foreign-exchange. And then you had a pretty big quarter for spread tightening so credit books including loans would have seen better valuations throughout the quarter. So I think all of that contributed. It is great to see the good results in the dealer community.

Chris Shutler - *William Blair & Company - Analyst*

All right thanks, Rick.

Operator

Thank you. Our next question is from Rich Repetto with Sandler O'Neill, you may begin.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Good morning Rick, good morning Tony. Just a couple small items here. Your comp went down, the comp ratio went down, was that due to the sterling dollar FX rate? And the same on the revenue side. The info, you might of mention this, info and post-trade services revenue tickdown.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Rich, on the comp ratio, not really FX-related -- all that FX-related. For us, both the revenue and expense numbers were impacted. So really that's not what is driving it down. What you saw on the comp ratio when we have a variable incentive, bonus accrual is tied directly to operating performance when you see that top line revenue number down $5 million or $6 million quarter to quarter, it drives that formula-driven provision lower. And that's really the principal driver. On the information and post-trade, Rich, I don't know if you're asking about year over year or sequential --

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Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Sequential.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

On the sequential basis, really two factors there. This exchange rate change has been significant. If you look at post Brexit, you look at for us, we have 35 million sterling in revenue, roughly 35 million sterling in expenses. When you look at a big movement from the second-quarter was 1.43 sterling to dollar, third quarter was 1.31 and honestly in the fourth quarter, looking at October it's down another step function down to 1.22. So, a big chunk of that information and post-trade declined was FX-related.

And the other piece, and we had some comments in response to a question on the second-quarter call about the composition of our information and post-trade revenue about two thirds of it is data. Most of that is subscription driven but some of it is one-time data sales. And then about one third of it is post-trade transaction reporting and trade matching, which is tied to volume. So there's some dynamics there and in the second quarter the one-time data sales, we're higher in the second quarter then the third quarter. It's not a big piece of the revenue driver but it was higher in the second quarter, so when you add up the FX and the one-time data sales those are the principal reasons for the decline.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. That's helpful. And one quick follow up. It's a follow-up on the question that was just asked you, Rick, on the dealer. The Big Bank good quarters and thick. And being due to the model you went through a number of things. But in general when the dealers do well, could you go through some of the items on how the strength -- like bigger balance sheets for the dealers, or at least more profitability impacts your model.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

I don't know that we have a specific metric around that. And I don't think there has been a lot of correlation between dealer results and our own results over time. I think one of the big stories for us though is what we are seeing from the dealer community in terms of the significant increase in investment for automation of credit market making. And that is really working its way across the industry, which tells us that they are preparing for growth in electronic trading and they are seeing the benefits of efficiency in their trading model by doing things more electronically.

And that is a huge thing as you know. They can manage more trading velocity at a lower cost and more efficiently, it is in keeping with their overall strategic goals. I think that was a key theme from our perspective in the third quarter.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Got it. Thanks guys. Very helpful.

Operator

Thank you. Our next question is from Hugh Miller, Macquarie. You may begin.

Hugh Miller - *Macquarie Research - Analyst*

Good morning. I just wanted to start off with a couple of housekeeping questions if I could. Tony I think you mentioned that the fixed rate fees for US high grade were up a little bit quarter over quarter because of one dealer change there. Was the dealer included for the full quarter? Should we be thinking about this particular fixed-rate fee capture into Q4, or should there be any other adjustments there? And historically when we have seen some changes in the program there has sometimes been an offset in terms of variable fee capture to make it more revenue neutral, is that the case or should we not be thinking about it that way?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

On this one dealer that did move between fee plans and they move from what we call the all variable plan to the distribution fee plan. It did happen at the beginning of the quarter. You are seeing that full impact.

For US high-grade right now we're not -- we have got 29 dealers on the major plan and the distribution fee plan. We're not tracking anything at this particular time. If you're thinking about forward guidance for the fourth quarter for that item, it is -- we're not expecting anything, any big change right now.

And I'll tell you about his particular dealer, it was about revenue neutral. The impact in the quarter variable transaction fees declined and distribution fees went up. As we have grown, the impact of these dealer movements on fee capture has diminished. As we have grown volumes and variable transaction fees, a single dealer moving impacts those fees per million by $2.00 or $3.00 right now. It is not that big of an influence when we see that kind of transition taking place.

Hugh Miller - *Macquarie Research - Analyst*

Got it that is very helpful. One other housekeeping. I appreciate the insight on the clearing costs and helping to quantify that as we think about on a go forward basis. Obviously 2016 was a bit of an unusual year in terms of some investments in the business with the rollout of some new products. As you guys consider the budgets for next year, aside from the benefit on the clearing cost side, are there any other unusual costs we should consider as we think about 2017?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

It is a little early to start talking about the expectations for next year. I always tell people that history is a good guide. In this case, if you look at historical expense growth, it has been 10 or 11%. You're right this year, 2016, the year-over-year expense growth is higher than what we have posted over the last five years let's say. Let's just say that thematically, we're going to continue to invest where we think it's important to invest now.

We think it is important to expand our addressable market and add products and expand geographic reach. So we're going to continue on that. This is the small stuff, but the one discrete item that we are tracking is around occupancy expense, where we are flat out of space here in New York. We are taking on some additional expansion space next month. Having said that, we look at the occupancy line and it is $4 million on an annual basis. A couple of percent of our expenses. It's not a big number, but there is a step function over the next several years in occupancy expenses.

Hugh Miller - *Macquarie Research - Analyst*

Okay. That's helpful. And then obviously we have seen some very strong industry growth this year in US high-grade for trending up significantly. It has been a nice benefit.

As we look at what we have seen so far in October that hasn't continued I think just tracking a little bit lower in the industry in terms for both high-grade and high-yield, can you provide us a little bit of market color as a what you were seeing there. I know you mentioned some data points on your expectation for your share for the month, I did not capture that. If you could repeat that, that would be great.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Sure. On market volumes, this is a positive sign over the last two or three quarters that we're actually, for the first time in four years or so, seeing an uptick in market turnover. And I think it's a great sign and I think it reflects that investors and dealers are adopting to the new regulatory environment and finding new ways to move risk.

You have heard us say before to you that with the mass of growth that we have seen in the corporate debt markets, if we can get market turnover back to more normal long-term levels, it would result in a 30% or 40% increase in TRACE volumes. And so this is the beginning of a market adopting to the regulatory changes and finding new ways to get business done in trade, then we would be optimistic that the trends in market volumes could be higher.

The one thing that we don't know is the direction of rates in the new issue calendar, clearly the large new issue activity over the last four years has driven a lot of secondary volume. The expectation is that if the Fed raises rates, it will be very gradual. Over the next 18 months so I don't see that changing much.

But if the environment were to change for a new issue activity, then a component of secondary market would likely be lower. But I still think we're dealing with global credit markets that are so much larger than they were five years ago. That as we deliver more and more connectivity to that market and efficiency electronic trading, we would be optimistic that there was plenty of room for turnover to grow.

Hugh Miller - *Macquarie Research - Analyst*

Very helpful. If you could reiterate some of the color you provided in the prepared remarks on market share and where that's expected to fall out in October.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

I think, Hugh, in the prepared remarks I said that right now high-grade and high-yield market share is tracking below the third quarter. But well above October of last year. Third-quarter market share for high-grade was 16%; for high-yield was 7%. It was tracking below that but well above last year.

You will recall last year for US high-grade market share was 12.6%. It was a bit of a strange month. There were a number of story bonds and very high new issuance and our market share reflected some of that activity. We are expecting a significant increase over that year. I will tell you one other thing.

We look at -- as best as you can measure market share across our four core products. High-grade, high-yield, emerging markets in Eurobonds. So what we're tracking for market volumes is tough to get at. When we look at market share on a composite basis for October so far, it is very close. It's almost identical to where the composite share was for the third quarter.

So there's some pluses and minuses and there. You see the tremendous progress we've made in emerging markets and that progress is continuing. On the market share, there's only four days left. But it's tough to predict exactly where we are going to come out. Right now it's tracking a little bit below the third quarter.

Hugh Miller - *Macquarie Research - Analyst*

Great. That's helpful I appreciate the insight thanks.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Thank you.

Operator

Thank you.

(Operator Instructions)

Our next question comes from Ashley Serrao with Credit Suisse, you may begin.

Ryan Espiritu - *Credit Suisse - Analyst*

Hi there, this is Ryan Espiritu filling in for Ashley Serrao. Just wondering if you could discuss a little bit how you view the growth prospects of your data business.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

I would be happy to take that one. The data revenues were not quite as robust in growth as they were in the second quarter. Having said that, I think we had a very strong quarter for developments in our data product area. And we have been investing very heavily as you heard us mention in the past and real-time data capabilities in Europe in particular through Axess All. There were a number of improvements made that really allow clients to customize our trade tape and have highly relevant real-time price and spread in volume data. And we are seeing growing use of that with large dealers, as well as investors to help them understand market risk and liquidity risk. We expect that the demand of those products will continue to grow.

And so is not an enormous contribution to the overall company and earnings currently, but we see ways to grow that revenue and earnings base. And we always think about data products in two ways. One, what products can we actually earn revenue and selling either through our web products or through APIs to our clients.

But equally important, how can we enhance the value of the trading platform for our clients with the data that we integrate into the trading system. And with Axess All and Trax data combined with the enhanced TRACE data all fully integrated, we feel really good that we are giving dealers and investors the benefit of the best real-time data available in credit products.

And so that certainly is contributing to the trading volume growth that we have seen. So a long way of saying over the years we see a bigger opportunity in data. It is an area of investment for us. We think we had a pretty good quarter in terms of enhancing the quality of the products that we deliver.

Ryan Espiritu - *Credit Suisse - Analyst*

Great. Thanks for all the detail there, and if I can have a follow-up question, would you guys be able to discuss your views on capital management given current cash on the books.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Sure, Ryan. On the capital management side we have always had this philosophy of having a strong balance sheet. We like that operating flexibility that it gives us. It allows us to act opportunistically if something does arise. That current dividend program, we are targeting paying out right around one third of free cash flow. And one third of earnings.

If you look at the trailing 12 months, we are probably paying out right around 30% right now. That repurchase program we have had in place is serving the intended purpose. It's a repurchase program to offset the dilution from employee equity grants. You look at the last four years of repurchase side, we've granted roughly 1,000,000 shares and options and we have repurchased roughly 1,000,000. Again we got a programmatic plan in place.

I will tell you right now, there is no current plan to change the capital return policy. We do revisit that policy every quarter with the board. If you look back in history you will see -- we do have a history of changing the dividend or adjusting the dividend in the beginning of the year. That will be another discussion with the board.

It's no secret that we have been transparent about this as a free cash flow and earnings increase, we are ratcheting up that dividend. We increased it 50% in 2015 we increased that 60% in 2016. We are increasing that dividend. But right now, no plans to change.

Ryan Espiritu - *Credit Suisse - Analyst*

Great. Thanks for taking my questions.

Operator

Thank you. I am showing no further questions at this time I would like to turn the call back over Rick McVey the closing remarks.

Richard McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Thanks very much for joining us this morning. We look forward to catching up again next quarter.

Operator

Ladies and gentlemen does conclude today's conference. Thanks for your participation and have a wonderful day.