

Jefferies Prime Services Monthly

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It's a Feature, Not a Bug

While the debate rages as to whether Facebook's recent Cambridge Analytica debacle resulted from a feature of the platform or a flaw, we have been discussing other dual-edged swords.

Coming across our desk of late

- 1. Feature: Performance!** Despite choppy markets, hedge fund performance has largely held up through the first three months of the year, with some funds handling the volatility particularly well and reminding allocators why they put the "hedge" in hedge fund. Dispersion is higher, with some funds posting solid middle to high single digit returns through March.
- 2. Bug: Lack of transparency.** Allocators are increasingly vocal about communication with managers – how often, in what form, and what is communicated in periods of acute stress. While no one wants to be the "squeaky wheel," there is an expectation that managers will be clear, concise and proactive around any changes or shifts that could impact fund performance or operation.
- 3. Feature: Capital intelligence.** We are excited to announce the rebrand of our Capital Consulting team to Jefferies Capital Intelligence to more accurately reflect what clients *need* in an era of almost too much information. As discussed in our February [State of Our Union](#) piece, clients are intensely focused on more effectively wading through the massive amounts of data they now have to navigate on a daily basis. The Capital Intelligence team is dedicated to delivering industry leading and actionable insight to clients.
- 4. Bug: Talent challenges.** Increasingly in focus (or, in focus *again*, depending on your institution) – is how managers are retaining and continuing to train employees. Much has been written about the ongoing war for talent, particularly in some corners like investment analysts, engineers or business development. But firms are working to ensure employees are focusing their time where it belongs – on work accretive to productivity, and not on mundane or routine tasks. To that end, they conduct bandwidth/efficiency studies to ensure employees spend their time on what is most interesting and productive – and training them in new skills.
- 5. Feature: Collaborative term and fee structures.** More on this on page 2, but we are seeing among the most diverse panel of term and fee choices in recent years. While many have focused on downward headline fee compression or concessions, many more managers are re-evaluating opportunities for alignment and are pursuing differentiated share class terms.

2018 Hedge Fund Performance Review | HFRI

Strategy	Mar-2018	YTD
HFRI Event Driven	-0.49%	0.20%
HFRI Macro	-0.18%	-0.97%
HFRI Relative Value	-0.02%	0.84%
HFRI Equity Hedge	-0.31%	0.71%
HFRI Fund Weighted Composite Index	-0.25%	0.35%

Source: HFRI

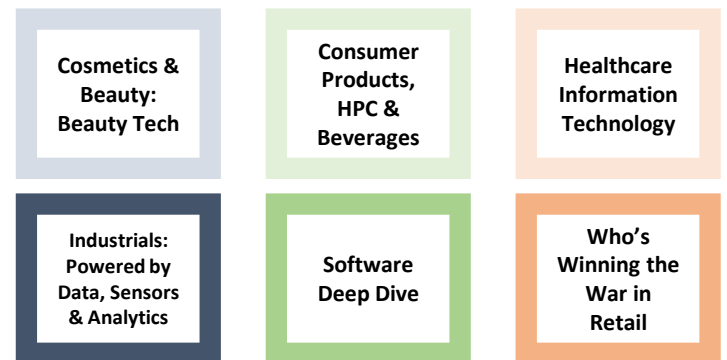
Leucadia National Corporation to be Renamed Jefferies Financial Group*

On April 9th, the Leucadia National Corporation, Jefferies' parent company, announced a series of strategic transactions that will complete the firm's transformation to a diversified financial services company.

Leucadia shareholders will vote at the upcoming annual meeting in May to change the name of the Corporation to Jefferies Financial Group, Inc., and it is anticipated that the new ticker on the NYSE will be JEF, reflecting that change.

*Subject to shareholder approval in May

Powered by Data: Jefferies Equity Research Conducts Industry Deep Dives on Data Usage



In continuing to develop, broaden and release cutting edge insights on the growing use of data – our Equities Research team has started releasing pieces in the **Powered by Data** series, conducting deep dives in how various industries are leveraging the data and its related tools.

To date, we have released a number of pieces, including:

- [Industrials: Powered by Data, Sensors & Analytics – Trends, Opportunities and Threats](#)
- [Healthcare Information Technology – Hospital Survey: PopHealth Spending Accelerating Over the Next 3+ Years](#)
- [Consumer Products: Powered by Data – Initial Assessment of HPC and Beverage Companies in Data Analytics](#)
- [Software: Powered by Data – the Alchemy of Extracting Value from Big Data](#) [Full Report]
 - [Video](#)
- [Cosmetics, Household & Personal Care: Deep Dive – Beauty Tech is the Next Natural Evolution for Growing Industry](#), and
- [Powered by Data: Who's Winning the War in Retail?](#)

"Powered by data" means different things across different industries, and the series investigates use cases as diverse as Clorox's use of weather data to microtarget lip balm marketing to Caterpillar and Deere's use of telematics to monitor in-field equipment.

We will continue to release **Powered by Data** pieces throughout the year.

Jefferies Capital Intelligence: GDPR is Around the Corner

We're focused on the General Data Protection Regulation (GDPR) – going live in Europe on May 25th. GDPR has received increased attention in recent weeks, particularly on the back of data use (or misuse) headlines.

Here's the long and short of what you need to know

- **What is GDPR again? I just got done figuring MIFID out.** We're sympathetic. GDPR is the next iteration of European data privacy laws. It follows the well known "right to be forgotten," which was firmly established by Europe's top court in 2014. GDPR builds on and enhances earlier European privacy directives. It addresses how personal information is gathered, stored, and shared, as well as dealing with cybersecurity incident.
- **What specifically does it say?** GDPR explicitly outlines what it defines as "personal data" – which differs from what the U.S. defines as "personally identifiable information (PII)." Per the EU's Data Protection Supervisor: "'Personal data' means **any** information relating to an identified or identifiable natural person; an identifiable person is one who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural or social identity."
- **Isn't that pretty broad?** It is intentionally broad, "providing for a wide range of personal identifiers to constitute personal data" and reflects changes in technology and the way organizations collect information about people. It captures data as broad as your Facebook profile, to CRM tools that capture and catalogue investors, or HR databases with employee information.
- **If this is a European regulation, am I really in scope?** As with all regulatory questions, we recommend you consult counsel for legal advice. But it is generally accepted that some non-European alternative investment managers may find themselves in scope if certain conditions apply – the most common of which is if the manager has European investors.
- **If I am in scope, what do I need to do?** If you are in scope, you should consult with counsel for a more exhaustive list of action items – but potential to-do's include providing privacy notices and amendments, drafting data protection policies, incident management plans and impact assessments, and/or updating due diligence questionnaires and responses.

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Dallas Reverse Inquiry Roundtable: May 16th

The Jefferies Capital Intelligence team will be hosting its Spring Dallas Reverse Inquiry Roundtable for investors on May 16th at the Ritz Carlton. Jefferies Chief Market Strategist David Zervos will provide a keynote, immediately followed by four fund presentations, from Japan Long Only, Long-biased Equity L/S, public/private Israel and Small Cap Concentrated Equity L/S funds.

If you would like to learn more, please contact **Katie Dillard**.

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TRIP TO ATLANTA

With the Masters behind us, we'd like to share some views from our recent trip to Atlanta, Georgia – home not only to Augusta National, but also the world's busiest airport (Hartsfield-Jackson), birthplace of Martin Luther King, Jr., and setting of Donald Glover's award winning show on FX.

Of particular note:

- The Atlanta landscape continues to evolve – shaped by local family offices, wealth platforms, endowments, pensions, and to a lesser extent – funds of hedge funds.
- Very mature hedge fund portfolio community, with many allocators in a 1-in-1-out position, or adding in extremely targeted searches around the edges
- Strategy focus tends to niche strategies or fixed income alternatives; less overall appetite for more traditional equity or credit managers
- Where equity appetite exists, it's largely for smaller capacity constrained long only or long biased managers
- For allocators who have alternative investments, but are less focused on the space, a number report having heightened search requirements, particularly around 5 – 10 year track records (to understand performance over market cycles)
- More than one allocator indicated doing considerable work on China – other groups focused on tactical niche strategies in U.S. (leasing, royalties, direct lending)

Call us for more information, or if you need help navigating the area...there are more than 50 streets in the Atlanta metro area with Peachtree in the name.

Dave Katona

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Collaborative Term & Fee Structures

Jefferies recently released a piece on differentiated fee structures, highlighting various case studies in which managers have uniquely addressed questions of alignment.

- **Seed-like structures** focused on revenue sharing can provide similar benefits to seeding arrangements, but with slight variation in length of relationship
- **Optionality** has become increasingly topical and thematic as managers work to match investor expectations with business sustainability and endurance over cycles.
- **Longer Lock Ups with Lower Incentive Fee** may be a next-generation version of Founders' Share classes, with lower headline management or incentive fees in exchange for lower liquidity
- **Longer dated crystallization** of incentive fees – particularly for managers with longer term holding periods and investment horizons.
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JEFFERIES EQUITY RESEARCH DIFFERENCE MAKERS

Top Jefferies Research Reads in recent weeks

Leaders of the Pack:

- [JEF's SMID-Cap Valuation Handbook](#)
- [VIDEO: Powered by Data – the Alchemy of Extracting Value from Big Data](#)
- [Public Cloud Progress Report](#)
- [ANFI: Brands Still Matter but Valuations Reflect Otherwise](#)
- [MSFT: Microsoft Restructures Engineering Team](#)

Other Notable Reads

- [Getting Tough and Emotions Running High – May Mean Close to Some Bottom?](#)
- [AMZN: Hoodies Galore: Takeaways from AWS Summit in SF](#)

Jefferies Global Equity Strategy: Global Asset Allocation – An Equity Investor's Guide to Global Trade Dispute

- The US trade dispute, which was confined to its NAFTA partners and then Europe/EM, recently spilled over into a broader one with China. While the US and China have 'exchanged' tariff threats, there are a number of ways that the dispute can be resolved. Coincidentally, the value of global trade has climbed sharply over the past year. Ironically, EM equities and global freight/logistic – the most sensitive names to a trade war have performed reasonably.
- Like a game of three dimensional chess, the US trade dispute operates on three levels. Firstly, the US argues that the original trade deals placed its economy at a disadvantage. Secondly, other countries have failed to open up their own economies over time. Thirdly, China in particular has increasingly gained an economic advantage by securing US intellectual property through JV transfers. It should be noted that the US argues that other countries have deliberately intervened to keep their currencies cheap to boost trade. Timing wise there is also the not so small issue of the US November mid-term elections.
- We feel that the US has a point on trade but are both the US and China arguing over the same thing? The US sees China's entry into the WTO as possibly a huge policy mis-step. It expected China to become more Western and less of an economic threat. The US believes, quite rightly in our view, that many countries have deliberately intervened to keep their exchange rates down. However, global trade is increasingly led by intra-emerging market trade with China at the center. In contrast, services now dominate the developed world economies. Although China runs a tradable goods deficit with China, the US runs a services surplus with China mainly in tourism.
- [Full note available here](#)

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The Data Dish: Jefferies Analysis of Technomic Transaction Insights Data

Andy Barish and team just introduced The Data Dish! - our analysis of proprietary credit card transaction data from Technomic, in which we focus on directional changes for restaurant same store sales. Data through Feb '18 suggests favorable directional trends at SHAK (UNPF), & YUM- Pizza Hut (Hold), inline trends at MCD (Buy), and unfavorable trends at PZZA (Hold), & CMG (HOLD). For brands with lower correlations, we highlight favorable trends at RRGB (Buy), SBUX (Buy), WING (UNPF), & BLMN (Hold).

In our first report, we introduce a new monthly analysis of Technomic Transaction Insights data through February 2018. Using a sample of credit card transaction data, Technomic projects monthly sales, growth, and market share for the top 200 domestic restaurant brands. Then, the firm adjusts the sales growth for net new store openings, creating a "sales index" that we find to be a good metric for directional comparison to reported same-store sales (sss). We found material (70%+) correlations for many of our covered companies, but as the y/y data set only looks back eight quarters, acknowledge the low statistical significance at present. We will endeavor to report monthly, and highlight observations on both individual brands and the restaurant industry as a whole. Please contact us for more information on the data and methodology.

Potential 1Q sss surprises. For companies with 70%+ correlation, Technomic suggests favorable directional sss trends at SHAK (UNPF) and YUM- Pizza Hut (Hold) vs. consensus estimates for decelerating growth, inline trends for MCD (Buy) and unfavorable directional trends for PZZA & CMG (Hold). For brands with lower levels of correlation, we highlight favorable directional trends for RRGB & SBUX (Buy) and BLMN (Hold). Note that many companies already provided 1QTD sss trends when they reported 4Q results in late Feb, so this month we are only focusing on a select few companies that did not provide intra-quarter sss trends, where this data set is most useful. Also, because the insights are based on a sample of transactions, we believe Technomic is most useful in predicting directional changes in comp trends, rather than specifically forecasting a precise magnitude of sss. As you will see in the report, the Technomic growth trends tend to be more volatile with a greater magnitude of change to both upside and downside relative to actual reported sss results.

Market share gainers & losers. Within this report, we also summarize market share trends observed in Technomic monthly transaction data, with analysis of historical relationships and specific Y/Y changes seen in recent months (in this piece we focused on the LSR Burger, Chicken & Pizza categories). This confirms dynamics we have seen in our analysis of reported results of public chains. We believe this market share analysis will help investors visualize some of the competitive dynamics occurring in the industry and specific categories. Notable takeaways from this report include significant market share gains for McDonald's, Burger King, Chick-fil-A (private), and Dominos, with observed share losses for Jack in the Box, Sonic, KFC, El Pollo Loco, Papa John's, Little Caesars (private).

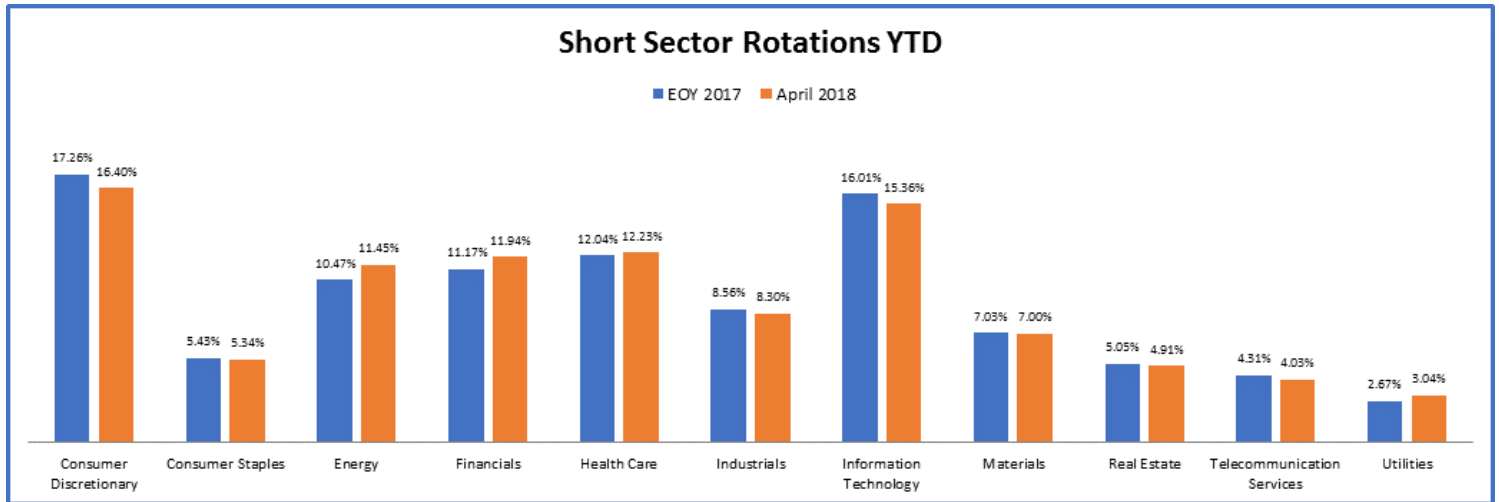
[You may access the full note here](#)

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Jefferies Stock Loan Corner

U.S.: Below are the Sector Rotations we have seen on the short side since the beginning of the year. We have seen a gross increase in the mid-single digit range of shorts since the beginning of the year, as funds are opportunistically adding. ETFs have been a disproportionate add to the book since the beginning of the year - across the street, ETFs have reportedly approached 52 week highs as a percentage of total shorts. In the past month we have seen adds to the Consumer Discretionary and Technology sectors. Our largest single stock short positions are dominated by Tech and both Consumer sectors companies.



Asia: With the increased global volatility, coupled with a macro led selloff, we have definitely seen a fair amount of short covering on the book. Overall the geopolitical landscape has meant that Asia has continued to take a lead from US markets as the rhetoric around a trade war has escalated. Hong Kong, China and Taiwan were also closed for a few days during the month, reducing trading opportunities. However, Japan has been busier with a big secondary deal in Renesas and with a handful of distressed specials providing some opportunity. Client activity continues to accelerate and momentum remains solid despite the market volatility.

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U.S. Largest Increases/Decreases of Hard to Borrow Interest

Security	Average 30D Volume	Utilization	Quantity on Loan	SI Increase as of 3/1/18	Indicative Average
MDXG	2,703,591.50	82.30%	44,660,532	7,458,016	-21.5686
SN	3,156,867.50	81.98%	82,087,648	6,860,248	-1.9829
SRNE	4,815,465.00	84.17%	11,436,417	6,231,182	-1.4496
TSLA	9,319,725.00	78.12%	42,076,304	5,633,124	-6.0429
TELL	1,456,956.00	83.59%	14,780,379	5,273,652	-9.6746
RDFN	1,426,089.13	87.93%	10,706,938	4,202,115	-0.4895
AAOI	1,291,377.88	92.67%	11,934,867	3,334,388	-37.6635
MOC	11,733.33	96.20%	9,392,414	3,199,725	-2
QD	2,797,468.50	97.33%	15,702,968	2,833,347	-15.7209
SIRI	16,434,893.00	88.54%	375,764,768	-13,586,848	-2.74
STON	101,508.10	95.55%	9,925,760	-5,322,350	-6.00
DDD	3,006,251.75	75.53%	32,608,556	-3,113,764	-7.94
SHLD	1,725,087.88	83.28%	7,305,343	-1,260,574	-19.80
VHC	403,701.50	77.03%	9,292,997	-1,153,392	-11.93
RES	1,372,082.38	76.65%	27,745,456	-833,048	-1.81
BSTI	1,203,758.38	80.80%	7,025,587	-626,493	-4.00
REV	91,461.80	78.32%	2,855,679	-475,060	-15.56
HIMX	3,547,680.00	92.66%	26,015,160	-469,252	-7.32
RCII	1,781,730.00	76.45%	23,510,616	-416,952	-8.06

Source: Markit/Jefferies

JEFFERIES UPCOMING EVENTS

Upcoming Conferences & Events		
April 24	NEW YORK	Jefferies Flagship Capital Introductions and Best Ideas Symposium
May 9-10	LOS ANGELES	Jefferies 2018 Global Technology Conference
May 10	NEW YORK	Jefferies Media IR Day
May 15	NEW YORK	Jefferies Residential Real Estate Housing Summit
May 16 & 18	HONG KONG & TOKYO	Jefferies & Fubon Co-Hosted Taiwan Corporate Day
May 24	NEW YORK	Jefferies Automotive Aftermarket Investor Conference
May 30-31	NEW YORK	Jefferies Japan IT Service & Internet Summit
June 3-6	ISRAEL	Jefferies Israel Tech Trek
June 6	LONDON	Jefferies Cyber Insurance Summit
June 7	ISRAEL	Israeli Hedge Fund Association Conference
June 5-8	NEW YORK	Jefferies 2018 Global Healthcare Conference
June 12	TORONTO	Learn 2Quant Toronto
June 12	LONDON	Nasdaq 38 th Investor Conference with Jefferies
June 14	BOSTON	Learn 2Quant Boston
June 18 & 20	NEW YORK	Shipping Conference at Marine Money
June 19	LONDON	Jefferies Global Outlook Summit
June 19-20	NANTUCKET	Jefferies 2018 Global Consumer Conference
June 20	MILAN	Jefferies Global Outlook Summit
June 21	ZURICH	Jefferies Global Outlook Summit
June 25	NEW YORK	Jefferies Steel Summit
August 7 – 9	NEW YORK	Jefferies Industrials Conference
August 28-29	CHICAGO	Jefferies Semis, Hardware & Comm Infrastructure Summit
September 11	PARIS	Jefferies Satellite Summit
September 12	NEW YORK	Jefferies Fitness Summit
September 18	NEW YORK	Jefferies Electronic Payments Summit
September 19	LONDON	Jefferies Specialty Finance Summit
September 25	NEW YORK	Jefferies Fall Consumer IR Summit

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