

# Jefferies Prime Services Monthly

JULY 2018



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# Jefferies

## It Isn't What You *Don't* Know That Gets You in Trouble It's What You Know For Sure, That Isn't So

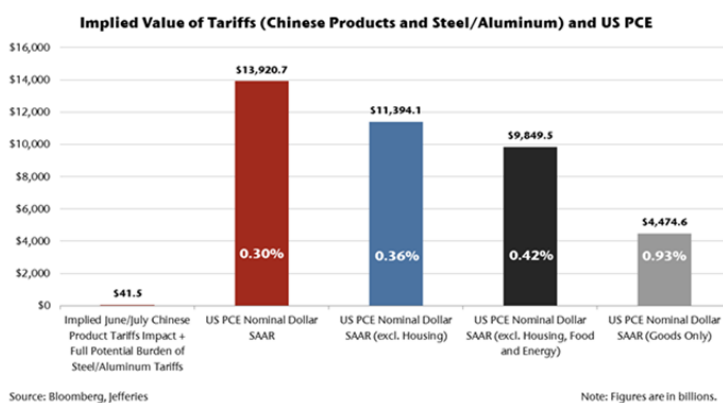
Some form of this quote has been attributed to everyone from Mark Twain to Yogi Berra. Regardless of origin – summer is a good time to take a pause, and revisit your own assumptions to see what you could be missing.

Some of the things we're re-evaluating this July:

1. **Banks' 2018 estimated earnings: Ken Usdin and team nudged their 2018 estimates higher for C, JPM and WFC in their 2Q2018 Earnings Wrap note, and held PNC.**

### 2. **Tariff Spats and Hysteria**

Lots of headlines following potential twists and turns here – but our Product Management team charts out the potential implied value tariffs vs. U.S. personal consumption expenditures (PCE). Coming in at \$41.5 billion (~0.2% of overall PCE), may not be as large a broad impact as headlines suggest. What's clear is the wind may change a number of times again before settling.



3. **Our Franchise Picks Continue to Outperform. We check in halfway through the year on our Franchise picks – which YTD for the first half returned ~140 bps of outperformance over the S&P. The Jefferies Franchise picks returned 408 bps on a total return basis through 1H2018.**

4. **Our World Cup Predictive Ability.** We weren't even close to calling a France/Croatia final – we'll have to wait for Qatar 2022 to revive our models (and hopefully upgrade them in the interim).

5. **What else we're reading this summer....** see page 5

## 2018 Hedge Fund Performance Review | HFRI

Strategy	June 2018	YTD
HFRI Event Driven	0.85%	2.37%
HFRI Macro	-0.30%	-1.81%
HFRI Relative Value	-0.12%	1.62%
HFRI Equity Hedge	-0.86%	1.16%
<b>HFRI Fund Weighted Composite Index</b>	<b>-0.46%</b>	<b>0.81%</b>

Source: HFRI as of 6.18.18

## Bringing Order to (Potential) Chaos: Jefferies Conducts Multi-Sector Deep Dive on Impact of Pending Marine Fuel Regulations

On July 13<sup>th</sup>, a diverse group of Equity Analysts released a *Jefferies Franchise Note – Marine Fuel Chaos Decades in the Making: Pick the Fork*. By rolling this theme across multiple sectors, the note delivers a comprehensive look at a potentially critically disruptive theme over the next few years. The team notes:

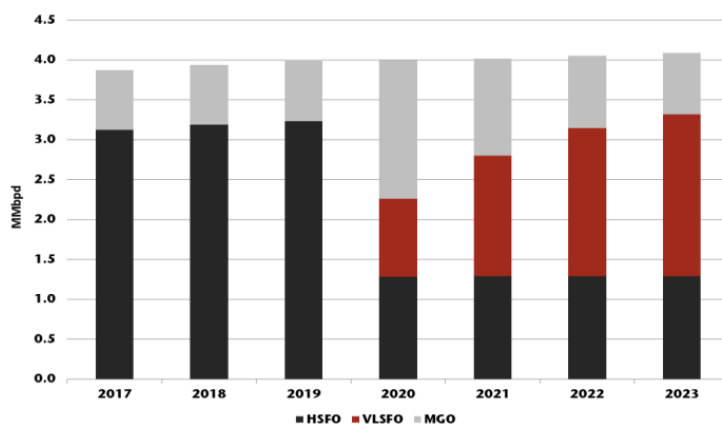
"When you come to a fork in the road, take it" "I will, if it is a silver one." The century-old joke aptly characterizes the way shippers and refiners have prepared for the new marine fuel regulations, to be implemented after 2020. Both refiners and shippers have delayed key decisions long enough that the most likely scenario will be a high degree of volatility in 2020-2025. Losers will likely be priced in faster than winners.

### 10 Variables to Consider & Themes to Follow in the Coming Months:

1. Penalties for non-compliance/Grace period/Impact on insurance
2. Open-Loop vs Closed-Loop Scrubber allowance
3. Additional environmental regulations (i.e. CO2 emissions)
4. Further announcements regarding scrubber ordering
5. Number of scrubber suppliers and capacity for installations
6. Availability of compliant fuels
7. Blend efficiency and engine compatibility
8. Future refinery investments in cokers/crackers/conversion capacity
9. Timing and scale of marine LNG bunker fuel infrastructure
10. Scrapping rates of older vessels/steel prices

The team also notes the general consensus among ship owners is that IMO 2020 will be a positive supply-side disruptor for the global shipping industry due to reduced capacity via slow steaming and older, less fuel-efficient vessels being removed from the market.

### IEA Bunker Market Scenario



Source: IEA

[For full note, please click here](#) and contact Laurence Alexander if you have questions or would like to connect with the team responsible.

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## Jefferies Capital Intelligence Wisconsin Landscape

The Capital Intelligence team recently traveled to Wisconsin for cheese curds and capital discussions. Highlights below:



- Madison is driven by large institutions (primarily endowments, pensions and foundations) that have very sophisticated internal infrastructures and are focused on alpha generative strategies.
- Milwaukee, by contrast, is more characterized by wealth managers / RIAs and family offices that tend to be more focused on operating their primary businesses and have a secondary focus on investments.
  - Many of these families have made their wealth in the retail and automotive industries. Moreover, a number of these family offices structure themselves as fiduciary trusts that are registered in South Dakota and Tennessee, as these states offer some of the strongest privacy laws related to trusts and have no income or estate taxes for private trusts.
- The more active groups are focused on equity market neutral or regional specialist funds.

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### Taking (Summer) Stock

A number of experts and service providers have anecdotally reported this summer has not witnessed a summer slowdown – and in fact, has been one of the busier periods of recent years.

- A number of funds are taking July and August to re-evaluate and revamp their infrastructure, workflow and processes.
- This is in keeping with a theme we heard earlier in the year that firms are looking to offboard more manual and repetitive process across the organization, to increase productivity and improve employee satisfaction and engagement.
- Believe this will be a longer term trend as managers work to win the war for talent across the board – not just on the investment side.

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### Jefferies Hosts Inaugural Ideas & Influencers Summit at Blue Hill at Stone Barns

**BLOOMBERG**      **ABInBEV**  
**NETFLIX**      **OURCROWD**  
**ALS ICE BUCKET CHALLENGE**      **TRIBE DYNAMICS**

- This June, the Jefferies Prime Services team hosted its **inaugural Ideas and Influencers Summit at Blue Hill Stone Barns in Tarrytown, NY**. The two-day event brought together leaders from across the hedge fund industry in a small retreat-like setting, to discuss trends and themes that are driving change in the economy and world.
- Topics covered ranged from how companies are preparing for the next generation of disaster recovery and incident response, to the disruptive impact of autonomous driving technology.
- Key highlights included an interactive session with **Ted Sarandos, the Chief Content Officer at Netflix**, who discussed how Netflix has revolutionized the way the world produces and consumes content, as well as a presentation **from Nancy Frates, a co-founder of the IceBucket Challenge for ALS**.

- Additionally, the event featured speakers from Tribe Dynamics, a firm that helps consumer brands quantify the value of social media content in the age of influencers, as well as OurCrowd, an Israeli-based company that has created a crowdsourced model for VC investing.
- We look forward to furthering our efforts around delivering differentiated content and networking opportunities for our clients in the second half of 2018 and in the years ahead.

## Jefferies Serves as Sole Sell Side Sponsor for **BattleFin** »<||> **BattleFin Discovery Day on the Intrepid in New York**

Jefferies served as the sole sell side sponsor for BattleFin Discovery Day, one of the largest gatherings of alternative data providers globally. BattleFin convened more than 600 investors, allocators and data providers, resulting in over 2,000 1x1 meetings.

600+

GLOBAL INVESTORS

2,000

1X1 MEETINGS

12

CONTENT SESSIONS

150

DATA PROVIDERS

As data becomes an increasingly critical tool in informing and driving decision making, BattleFin convenes data providers in the satellite, IoT, pricing, geolocation, webscraping, employment, sentiment, and macro spaces – from across sectors – to provide the opportunity for data buyers to connect with a mosaic of potential alpha generative data sets. Panels also focused on infrastructure and administrative issues, particularly around data ingestion and cleaning, compliance, due diligence and data-opolies.

Jefferies has been making an aggressive push into the alternative data space in parallel with BattleFin in recent years, focusing on its asset management clients and partners, with a dedicated team focused on the rapidly evolving space.

We're excited to partner with Battlefin as a leader and pioneer in alternative data conferences – and are particularly looking forward to the upcoming inaugural **Battlefins in London on September 27th and Hong Kong on November 14th**. If you would like more information on Battlefin, or Jefferies Data Science initiative, please contact your Jefferies salesperson.

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# JEFFERIES EQUITY RESEARCH DIFFERENCE MAKERS

## Top Jefferies Research Reads in recent weeks

### Leaders of the Pack:

- [JEF's Macro Weekly: The tide is starting to shift a bit](#)
- [AVGO Is Acquiring Who?](#)
- [M&A Speculation Re-Emerges: This Time With Potential Suitor Broadcom](#)
- [Assuming Coverage of PYPL: Venmo and Marketplace Opportunities Abroad](#)
- [SQ Assuming Coverage with Hold: Success at the Right Price](#)

### Jefferies Powered by Data Round Up

#### US Insights Highlighting Where Data Could Be Most Impactful Hits 15 Reports, With Contributions from 30+ Analysts

##### Consumer

[Consumer Products: Initial Assessment of HPC and Beverage Cos. in Data Analytics](#)

[Food: The Makings of a Brand Resurgence](#)

[Consumer/Specialty Retail: Assessing Who's Winning/Losing The DATA WARS in Retail](#)

[Cosmetics: Deep Dive: Beauty Tech Is Next Natural Evolution for Growing Industry](#)

##### Financials

[Re-Positioning the Robo & What Web Analysis Can Tell Us](#)

[Consumer Finance: How Tech-Based Alternative Data Apps Benefit Cons. Finance](#)

[Banks: Powered By Data: Driven By Digital](#)

##### Healthcare

[Medical Devices: Data Taking Root in Devices](#)

[Healthcare Facilities: HC Provider Strategy Handbook](#)

[Pharmaceutical Services: \(Outsourcing Insights Part II\) How Data Is Powering Trials](#)

[Biotechnology: The Exciting Potential and Challenge of Big Data in Biotech](#)

##### Industrials

[Industrials: Sensors & Analytics: Trends, Opportunities & Threats](#)

[Metals & Mining: Automation and Digitalisation in Mining and Steel](#)

##### Technology

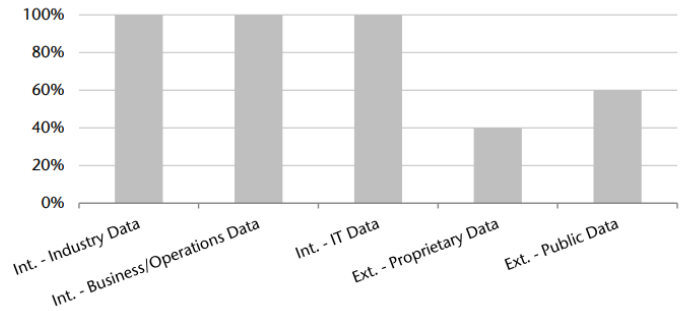
[Technology: The Alchemy of Extracting Value from Big Data](#)

## Jefferies Powered by Data

### Metals & Mining: Automation and Digitalization in Mining and Steel

As part of Jefferies' initiative regarding the use of Big Data and Analytics in business, we studied how the Mining and Steel sectors are applying these tools, which in our opinion are still in a period of early adoption. With data storage costs 98% lower than five years ago as per McKinsey's estimates, we believe the use of data analytics will become an ever greater lever for self-help profitability in these sectors over the medium term. Excerpts below:

**Internally Generated Data Reigns Supreme.** Clearly visible is that the vast majority of data leveraged by mills is internally rather than externally generated. This makes intuitive sense, as when mills focus on productivity and cost improvements there will be introspection about efficiencies which can be made based on their raw materials flow, footprint and logistical chain. The smallest portion, externally generated proprietary data, would likely be industry best practices that could likely help in items such as inventory or IT management.



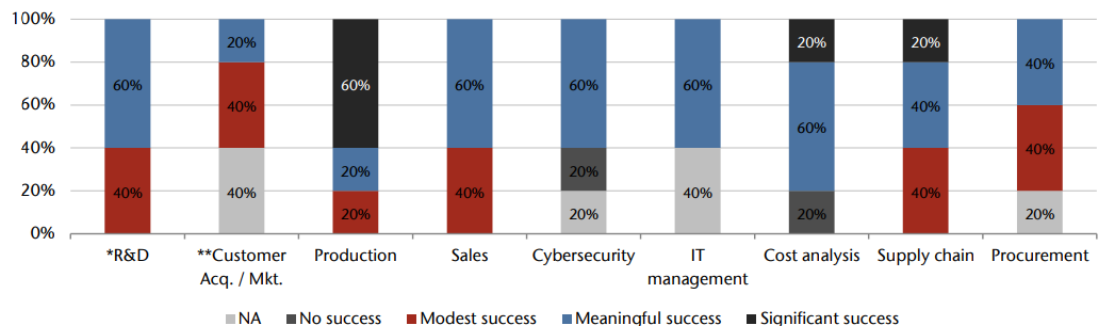
\*Int. = Internally Generated  
\*\*Ext. = Externally Generated  
Source: Jefferies

**And What is the Success Rate?** While, as mentioned, there was broad-based usage of data analytics, there were several standout categories which registered the greatest success rate. Notably, production had the highest respondent rate of “significant success” at 60% while cost analysis had 80% respond that it has “significant” or “meaningful” success. Not far behind was supply chain with 100% of respondents indicating success, although to varying degrees.

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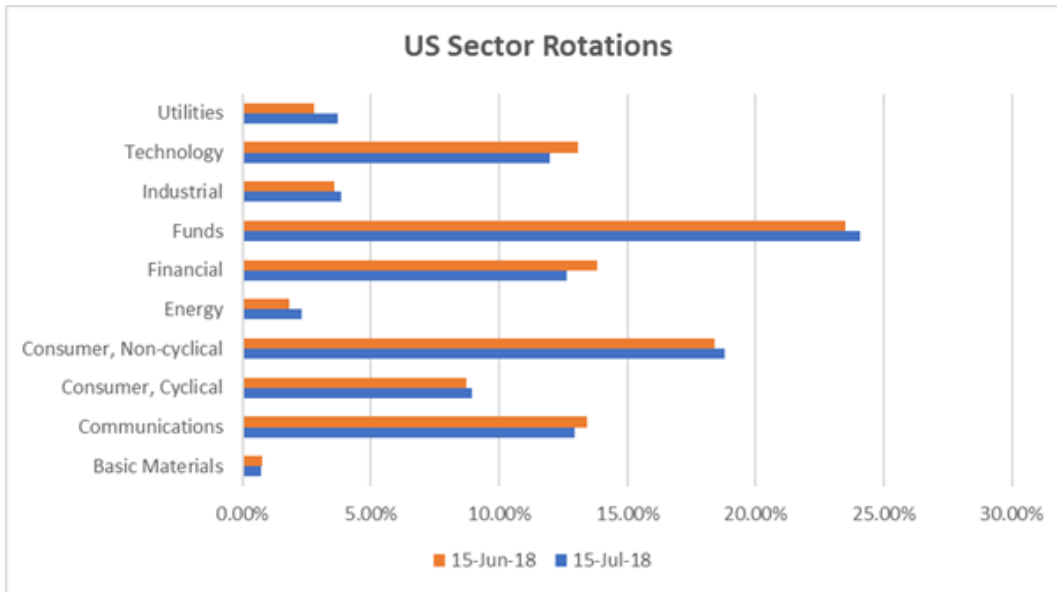
[FULL NOTE AVAILABLE HERE](#)

**Exhibit 15: Success Rate of Using Data Technology**



Source: Jefferies

## Jefferies Stock Loan Corner



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### U.S. Most Crowded Hard to Borrow

Ticker	Utilization	Quantity on loan (mm)	30 day delta	Indicative Rate
JCP	92.83%	139,178,832	14,295,752	-32.24
GOGO	90.81%	21,028,664	4,596,314	-18.47
TRXC	89.65%	36,048,148	16,555,762	-32.44
SNAP	80.75%	136,711,120	12,537,968	-1.00
SRNE	79.72%	18,843,064	5,841,036	-10.21
AAOI	77.75%	8,061,191	(2,083,999)	-8.90
OPK	75.46%	83,470,240	10,062,936	-1.46
FRED	72.94%	5,822,107	(3,236,932)	-4.61
SIRI	72.91%	316,879,584	(21,452,768)	0.31
ZIOP	72.35%	29,955,900	4,895,096	-1.32
MUX	70.94%	54,249,700	(2,654,852)	-0.92
MVIS	70.15%	8,151,606	(1,930,286)	-8.95
STON	70.12%	6,815,120	(2,429,000)	-8.30
SGYP	69.18%	51,536,360	(8,580,048)	-15.32
VXX	68.99%	11,161,661	(4,241,281)	-2.00
MNKD	64.89%	17,468,754	5,673,452	-10.93
DDD	64.76%	29,775,980	(4,805,176)	-3.00
AVEO	61.73%	9,388,104	5,461,060	0.00
NPTN	75.52%	8,086,965	(2,301,432)	-5.00
DDD	69.68%	33,041,520	(2,285,628)	-9.00

Source: Markit/Jefferies

## JEFFERIES UPCOMING EVENTS

Upcoming Conferences & Events		
August 7 – 9	NEW YORK	Jefferies Global Industrials Conference
August 9	NEW YORK	Jefferies 2018 Financial Services Investor Relations Summit
August 28-29	CHICAGO	Jefferies Semis, Hardware & Communications 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 26 – 27	LONDON	BattleFin London
October 9	LONDON	Jefferies Hoare Govett 2018 UK Mid-Market Forum
November 6	HONG KONG	BattleFin Hong Kong
November 7-8	ADMIRALTY	Jefferies 8 <sup>th</sup> Annual Greater China Conference
November 14 – 15	LONDON	Jefferies London Healthcare Conference
November 27 – 29	SAN FRANCISCO	Jefferies West Coast Consumer Conference
November 27 – 28	HOUSTON	Jefferies 2018 Energy Conference

### More of What We're Reading & Listening to This Summer

We received positive feedback on our summer reading highlights last month, so here are a few more.....

#### **In honor of the recent Helsinki summit [book]**

*From Cold War to Hot Peace.* Michael McFaul delivers a take on the “inside story” of Russia and America

#### **Because Jefferies' top // ranked Healthcare strategist Jared Holz told us to [book]**

*Bad Blood: Secrets & Lies in a Silicon Valley Start Up.* John Carreyrou delivers a riveting take on the Theranos story

#### **For understanding cutting edge journalism on technology and innovation [article]**

[The MIT Technology Review's Letter from Editor Gideon Lichfield explaining why “tech journalism shouldn't just explain technology, but make it a force for good”](#)

#### **For a new look at one of the most classic movie villains [article]**

[Vanity Fair reports on: Louise Fletcher, Nurse Ratched and the Making of One Flew Over the Cuckoo Nest's Unforgettable Villan](#)

#### **For a good, hard laugh [podcast]**

*Experts on Expert: Dax Shepherd interviews best-selling author and humorist David Sedaris*

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