CONTACTS

John Laub  
Global Co-Head of Prime Services  
+1 212.284.1726  
jlaub@jefferies.com

Nick Rankin  
Global Co-Head of Prime Services  
+1 212.444.4432  
nrankin@jefferies.com

Barsam Lakani  
Head of Prime Services Sales  
+1 212.284.1783  
blakani@jefferies.com

Leor Shapiro  
Global Head of Prime Services  
Capital Intelligence  
+1 212.336.6267  
ishapiro@jefferies.com

Shannon Murphy  
Prime Services Capital Intelligence  
Strategic Content  
+1 212.336.1139  
shannon.murphy@jefferies.com
Give in the Joints

2018 is gearing up to be one of the busiest periods for hedge fund launches in years. From one of the largest anticipated launches ever, to funds of myriad sizes, strategies and structures - we are seeing one of the most interesting and busy emerging manager landscapes in the last decade. The one word that sums up the current state of play: diversity.

Funds are launching with the culture, structure, terms and offering that work for them.

Of particular note:

1. **Strategies**: There has been a considerable uptick in niche and sector focused managers. Equity L/S generalists are fewer and far between – and they are laser focused on differentiating their product and articulating their unique value proposition vis-à-vis other competitors.

2. **Structures**: Master/feeder. Managed accounts. UCITS. Long only or long biased. It’s more common now for managers to oversee 2 or more products in the first 18 months of launch. While they may not have multiple products on Day 1, many field conversations in the first two years of operation that focus on taking a core strategy and “tweaking” it for an anchor investor.

3. **Seeds**: Seeding deals – like the managers themselves – have diversified in recent years. We’re hearing of very patient capital (locked up for 3, 5 years or more), that don’t always include a revenue or profit share, instead structuring the terms uniquely for the seeder and manager.

4. **The Big Picture**: As we mentioned in our February *State of Our Union* piece, managers’ needs have shifted materially. We wouldn’t characterize this era as having to do “more with less” – but rather, do more…differently. Where managers are spinning out from obviously shapes their views on running their businesses (for better or worse), and these mature institutions themselves have changed considerably in recent years. Resources that used to be rare (like having data teams internally, or sourcing models and software developers externally) are now more common. The launch paradigm has changed – each dimension of the new firm is more customized and tailored to the organization’s value proposition in the past. Whether an increase in the number of term and fee structures, in insourcing roles that used to be external (technology or data) or outsourcing roles that used to be internal (COO/CFO, trading), to the organizational structures themselves – we see much more diversity in the new launch landscape than in years past.

### 2018 Hedge Fund Performance Review | HFRI

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Apr-2018</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>HFRI Event Driven</td>
<td>0.39%</td>
<td>0.53%</td>
</tr>
<tr>
<td>HFRI Macro</td>
<td>0.28%</td>
<td>-1.20%</td>
</tr>
<tr>
<td>HFRI Relative Value</td>
<td>0.63%</td>
<td>0.84%</td>
</tr>
<tr>
<td>HFRI Equity Hedge</td>
<td>0.43%</td>
<td>0.88%</td>
</tr>
<tr>
<td>HFRI Fund Weighted Composite Index</td>
<td>0.42%</td>
<td>0.41%</td>
</tr>
</tbody>
</table>

Source: HFRI

### From the Prime Brokerage Sales Desk: Continued Momentum for New Launches and Emerging Managers

The robust, diverse and healthy new launch landscape of 2018 is a solid indicator of continued industry growth and development.

Whether a sector fund with cornerstone investors, managers who are new to the alternatives space launching with multi-year locked capital, private equity managers launching public vehicles, or those well known to the industry re-emerging with multi-billion dollar funds – we are seeing funds of all shapes and sizes preparing to come to market.

It’s an exciting time. Allocators have money to put to work – and many are telling us they’re more active in early stage managers than they’ve been in the past. Increasingly, allocators are looking “down the stack,” to earlier stage funds or those below the typical AuM threshold they targeted.

We are also seeing launches from the classes of 2016 and 2017 continue to gather momentum, as many reach critical mass of assets and a marketable track record.

We’ve also noticed an uptick in interest in self-created “platforms” – large, institutions with balance sheet looking to deploy capital across a curated group of hedge fund managers.

But as managers prepare for launch, picking the right counterparties is a critical part of this, and can either facilitate a firm’s growth, serving as an extension of the firm, or slow down efficiency or productivity if objectives don’t align.

We welcome the opportunity to engage with you – whether in prelaunch phase, in early days of coming to market, or are a longstanding manager considering rolling out a new product. We help drive outcomes for our clients that are grounded in data-driven decision making and differentiated expertise.

Barsam Lakani
Head of Prime Services Sales
blakani@Jefferies.com

### “Managed” Growth

Managed accounts are increasingly common as allocators seek greater transparency and managers are more willing to support the structures. We estimate nearly 40% of funds have a managed account within 12 – 18 months from launch.
What will maximize agility? or, at the very least, a How do I build the right culture. – the key to successful marketing in So Have New Allocator Searches decisions made prelaunch can concentrate, or lowered their required track. Intelligence” is a much more How do we get compliance right from Day 1? With an institutional framework that is scalable, but not too costly or burdensome during the early stages of operation. What is our long term marketing strategy? The LP/manager relationship has changed – the key to successful marketing in this environment is based on quality over quantity, and by maximizing return on time invested. “Intelligence” is in, given how commoditized many introductions (particularly early stage introductions) are at this stage of industry maturity. Managers are working to construct collaborative share classes that build longstanding relationships. How do I build the right culture. How the firm approaches relationships with their LPs and employees impacts every aspect of the organization. It is important to define culture, and critically, how it manifests in the policies, procedures, and day to day operations of the firm. How is culture reflected in the employee handbook, compensation structures, terms and fees, etc.? Expectations need to be set with employees from the start – culture fit is critical as turnover is disruptive (and sometimes fatal) to a small business, especially during the early days.

The hedge fund in a box model is dead – or, at the very least, a necessary but incredibly insufficient resource for building a long term efficient and successful organization from inception. To develop an enduring and agile firm – and one that builds loyalty among employees and long term partnerships with LPs – is a much more nuanced and detail-oriented undertaking than in the past.

Erin Shea
Prime Services Capital Intelligence
eshea@Jefferies.com

Thoughtful Share Class Construction Drives Alignment Across the Organization for the Long Term

- Targeted blended fee level across share classes to account for business break even and long term investment
- Collaborative structure and alignment of interest tied to investment strategy / liquidity

Reinvestment & Retention

- Compensation across cycles facilitates employee longevity
- Create R&D for business reinvestment
- Develop long term talent development program

Business Stability

- Builds long term partnerships
- Creates virtuous cycle of success and reinvestment
- Facilitates business stability, employee retention, LP longevity

Spring Has Sprung – So Have New Allocator Searches

A review of current allocator searches shares the diversity of strategies, sizes and structures we are seeing in the new launch landscape. While it would be a mistake to see them as interchangeable (many allocators still report requiring a minimum of a 3 year track record), we have recorded a number of allocators who have moved down the AuM spectrum, or lowered their required track.

Questions managers in their prelaunch stage should be asking:

- **What will maximize agility?** From cloud solutions to talent and outsourcing/co-sourcing – decisions made prelaunch can considerably impact the firm’s ability to adjust as it grows.
- **How do we get compliance right from Day 1?** With an institutional framework that is scalable, but not too costly or burdensome during the early stages of operation.
- **What is our long term marketing strategy?** The LP/manager relationship has changed – the key to successful marketing in this environment is based on quality over quantity, and by maximizing return on time invested. “Intelligence” is in, given how commoditized many introductions (particularly early stage introductions) are at this stage of industry maturity. Managers are working to construct collaborative share classes that build longstanding relationships.
- **How do I build the right culture.** How the firm approaches relationships with their LPs and employees impacts every aspect of the organization. It is important to define culture, and critically, how it manifests in the policies, procedures, and day to day operations of the firm. How is culture reflected in the employee handbook, compensation structures, terms and fees, etc.? Expectations need to be set with employees from the start – culture fit is critical as turnover is disruptive (and sometimes fatal) to a small business, especially during the early days.

The hedge fund in a box model is dead – or, at the very least, a necessary but incredibly insufficient resource for building a long term efficient and successful organization from inception. To develop an enduring and agile firm – and one that builds loyalty among employees and long term partnerships with LPs – is a much more nuanced and detail-oriented undertaking than in the past.

Erin Shea
Prime Services Capital Intelligence
eshea@Jefferies.com

Thoughtful Share Class Construction Drives Alignment Across the Organization for the Long Term

- Targeted blended fee level across share classes to account for business break even and long term investment
- Collaborative structure and alignment of interest tied to investment strategy / liquidity

Reinvestment & Retention

- Compensation across cycles facilitates employee longevity
- Create R&D for business reinvestment
- Develop long term talent development program

Business Stability

- Builds long term partnerships
- Creates virtuous cycle of success and reinvestment
- Facilitates business stability, employee retention, LP longevity
Top Jefferies Research Reads in recent weeks

Leaders of the Pack:
- JEF’s Collaborative Research – Energy on a Tear, Where Does it Go From Here?
- Jefferies 2018 Technology Conference Recap
- VIDEO: Jefferies 2018 Technology Conference Recap
- Two Weeks in Two Minutes
- PYPL: Getting Physical (At the Point of Sale)

Jefferies Global Equity Strategy:
US: A Playbook for Equity Markets 2018 - 2020

We highlighted in January that the current cycle is reminiscent of the late 1990s when US corporates began to invest at a time of technology disruption. While there have been growing worries over the flattening of the US yield curve, other indicators we examined did not suggest necessarily the same environment ahead of a major recession or slowdown. We have also reviewed macro gauges prior to the 2008 cycle. We upgrade Materials to Bullish.

- We have used the pre-2000 environment as our scenario for the current cycle because the 1990s were one of the longest periods of growth since WWII (this cycle is on course for the second best) and it occurred alongside a period of significant business outlays and a technology boom. Equally, the inflation rate was much softer than previous cycles and to all intent and purposes the late 1990s introduced the ‘disinflationary wave’. Interestingly, the March 2001 NBER defined ‘recession’ lasted 8 months but the overall GDP contraction was a meagre -0.3%.

- The US yield curve has flattened but the 2-year note yield is still suggesting that the Fed has still got room to move. The Fed’s recession probability model (based on term premium) has declined marginally and stands below 30%.

- Fund flows into risk assets are more mixed. Cumulative fund flows into High Yield Bonds have declined sharply from mid-2017, flows into investment grade has crested and those into EM bond funds have also peaked.

- Latest (April) US Senior Loan officer survey. Banks eased their standards and terms on commercial and industrial (C&I) loans to large and middle-market firms and left their standards unchanged for small firms. Meanwhile, banks eased standards on nonfarm nonresidential loans and tightened standards on multifamily loans, whereas standards on construction and land development loans were little changed.

- A quick look through the period entering the 2007 - 09 recession. The yield curve inverted early at the same time as real interest rates (based on the Fed Funds rate) went to 2%.

- Full note available here
  Sean Darby
  Chief Global Equity Strategist
  sdarby@Jefferies.com

US Insights: Jefferies 2018 Technology Conference Recap – Highlighting the Incremental

Jefferies hosted 105 companies at the Technology Group Investor Conference in Beverly Hills last week. Many of the individual presentations were recapped in greater detail in separate notes, this piece highlights a few key themes (and stocks) including: The Tectonic Shift in semis, optical component inventories, the importance of multiple cloud vendors and the videogame opportunity on the mobile platform, even for AAA titles.

Semiconductor companies attending the Jefferies conference remained focused on leveraging growth in Industrial, Automotive and IoT, supportive of Mark Lipacis’ “Tectonic Shift” and “Analog Renaissance” investment themes. Mark expects IoT-levered names and analog semis to see better growth in the future than they’ve seen historically. Also, there was support for the idea that further GM expansion remains achievable in part due to the consolidation that has occurred and is expected to continue.

The theme of Telco-Media convergence was also at the forefront, as content ownership, mobile viewing/consumption and data usage were highlighted by industry participants. For infrastructure, we expect increasing data traffic could lift all tides (WIFI, SBAC, CCOI), providing potential upside as 5G begins to emerge. Meanwhile, we believe mobile-centric content players, such as VZ, will be well positioned to gain share in viewership.

Optical component demand and inventories in China remain a closely watched topic, with some indications that at least Huawei has cleared through much of their inventory. ZTE remains a wildcard, but George Notter believes there’s still a possibility of a resolution there that would avoid a shutdown of ZTE; obviously news out on Sunday would tend to support that view.

Several software and internet companies highlighted the importance of using multiple clouds to avoid lock-in and get better pricing. While AWS is still seen as best-in-class technology, this bodes well for the other players. MSFT’s offering tends to be preferred by larger enterprises with bigger on-prem IT footprint looking for hybrid cloud. GOOGL tends to be preferred by start-ups and more tech savvy enterprises, as well as those focused on AI and analytics use cases.

Regardless of the environment for software companies overall, John DiFucci continues to believe we're in somewhat of a Golden Age, driven by core foundational computing technologies.

As for the video games, Jefferies Interactive Entertainment analyst Tim O’Shea felt incrementally positive on the opportunity for both ATVI and ZNGA within mobile gaming as both companies prepare to launch additional IP. For ATVI, this includes bringing IP from major franchises to the mobile platform, as mobile is now the largest and fastest growing segment (mid-teens) across the video game industry. Investor focus remain on Fortnite, but Tim would argue that it has done more to expand the market than to cannibalize it. Tim believes Fortnite has proven that established AAA games can flourish on mobile platforms, a positive as ATVI preps to launch its titles.

You may access the full note here

John DiFucci
Equity Analyst
jdifucci@jefferies.com
We have seen a reduction in short exposure in both Consumer and Technology with short term adds to Financials. ETFs: We are at a YTD high in terms of ETFs as percentage of short book, and it continues to grow - driven by Index related ETFs (largely SPY & IWM), and more recently a return in VXX shorts. We have seen higher activity and interest in Dutch Auctions during the past month including Whirlpool, White Mountain Insurance, Herbalife, CIT Group and AbbVie. Please contact the desk to discuss any of these deals or borrow color.

Europe:
We have been very active in the M&A space most notably in Abertis, Sky and Shire. Of particular note:

**UBM/IFN** – Informa have launched a bid for UBM. Deal is cash and stock so could provide M&M opps if it goes ahead. Scheme passed the vote and currently Max Stock is trading €20bps ITM over Max Cash. Calendar remains uncertain here. **SKY/FOX** - Comcast have now finalized their offer of £12.50 convoluting the situation this situation further. Financing counterparties are getting rather full and pricing is being squeezed. **ABE/HOT/ATL** – We were very active at the end of this fairly convoluted tender structure with many financing counterparties restricted. Deal has now completed with 85.60% acceptance of shareholders with pay date on 17th May for proceeds. **ABLX/SAN** – Sanofi lead the bidding ahead of Novo Nordisk having made a EUR45 cash offer for the company. Tender offer to expire 30/06/18. **SKG/IP** – SKG rejected a EUR 36 bid from IP, talk of a new bid around EUR 40 possibly in the pipeline. **SHIRE/TAKEDA** – Takeda have announced a firm offer of around £49 in cash and stock. Questions remain over how Takeda will finance the acquisition as well as regulatory issues driven by concerns around Shires corporate structure.

Asia
Asia has been substantially busier over the last month, despite Golden week in Japan and a number of regional holidays. HK & China have seen more IPO activity and the associated shorts / funding activity to subscribe for that, with some concerns starting to arise on a potential liquidity crunch coming in Hong Kong. We often see shorts in peer companies in anticipation of investors selling those down to fund IPO allocations. Xiaomi’s mammoth IPO was filed for debut in HK as well. Elsewhere the China / US trade negotiations dominate headlines and hit another name in H this month, ZTE. The stock was suspended and appeared set for the bankruptcy before high level negotiations stepped in at the 11th hour. Korea and Taiwan continue to see strong flows around companies reporting and we had the biggest name in Korea, Samsung Electronics, suspended for 4 days as they processed a stock split to make the stock more accessible to the retail market. Post the 50 for 1 split the stock trades at the US equivalent of $46.

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

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Utilization</th>
<th>Quantity on Loan (mm)</th>
<th>SI 30 Day Delta</th>
<th>Indicative Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIMX</td>
<td>96.29%</td>
<td>24,673,720</td>
<td>(2,361,838)</td>
<td>-12.5</td>
</tr>
<tr>
<td>QD</td>
<td>95.52%</td>
<td>11,603,468</td>
<td>(4,123,918)</td>
<td>-13.5</td>
</tr>
<tr>
<td>UNG</td>
<td>95.16%</td>
<td>2,563,088</td>
<td>1,476,853</td>
<td>-2</td>
</tr>
<tr>
<td>USO</td>
<td>93.55%</td>
<td>8,316,216</td>
<td>1,615,230</td>
<td>-1</td>
</tr>
<tr>
<td>WATT</td>
<td>93.16%</td>
<td>4,505,311</td>
<td>1,412,116</td>
<td>-70</td>
</tr>
<tr>
<td>UBNT</td>
<td>92.80%</td>
<td>8,609,271</td>
<td>(1,532,326)</td>
<td>-20.5</td>
</tr>
<tr>
<td>CMCM</td>
<td>91.46%</td>
<td>5,661,442</td>
<td>(3,027,977)</td>
<td>-15</td>
</tr>
<tr>
<td>TRUP</td>
<td>91.00%</td>
<td>8,711,737</td>
<td>1,412,414</td>
<td>-10</td>
</tr>
<tr>
<td>SIRI</td>
<td>90.47%</td>
<td>348,839,776</td>
<td>(21,893,920)</td>
<td>-2</td>
</tr>
<tr>
<td>SHLD</td>
<td>88.44%</td>
<td>9,119,110</td>
<td>2,986,508</td>
<td>-12</td>
</tr>
</tbody>
</table>

Source: Markit/Jefferies

Jefferies Prime Services Monthly | May 2018
JEFFERIES UPCOMING EVENTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 24</td>
<td>NEW YORK</td>
<td>Jefferies Automotive Aftermarket Investor Conference</td>
</tr>
<tr>
<td>May 30-31</td>
<td>NEW YORK</td>
<td>Jefferies Japan IT Service &amp; Internet Summit</td>
</tr>
<tr>
<td>June 3-6</td>
<td>ISRAEL</td>
<td>Jefferies Israel Tech Trek</td>
</tr>
<tr>
<td>June 6</td>
<td>LONDON</td>
<td>Jefferies Cyber Insurance Summit</td>
</tr>
<tr>
<td>June 7</td>
<td>ISRAEL</td>
<td>Israeli Hedge Fund Association Conference</td>
</tr>
<tr>
<td>June 5-8</td>
<td>NEW YORK</td>
<td>Jefferies 2018 Global Healthcare Conference</td>
</tr>
<tr>
<td>June 12</td>
<td>TORONTO</td>
<td>Learn 2Quant Toronto</td>
</tr>
<tr>
<td>June 12</td>
<td>LONDON</td>
<td>Nasdaq 38th Investor Conference with Jefferies</td>
</tr>
<tr>
<td>June 14</td>
<td>BOSTON</td>
<td>Learn 2Quant Boston</td>
</tr>
<tr>
<td>June 18 &amp; 20</td>
<td>NEW YORK</td>
<td>Shipping Conference at Marine Money</td>
</tr>
<tr>
<td>June 19</td>
<td>LONDON</td>
<td>Jefferies Global Outlook Summit</td>
</tr>
<tr>
<td>June 19-20</td>
<td>NANTUCKET</td>
<td>Jefferies 2018 Global Consumer Conference</td>
</tr>
<tr>
<td>June 20</td>
<td>MILAN</td>
<td>Jefferies Global Outlook Summit</td>
</tr>
<tr>
<td>June 21</td>
<td>ZURICH</td>
<td>Jefferies Global Outlook Summit</td>
</tr>
<tr>
<td>June 25</td>
<td>NEW YORK</td>
<td>Jefferies Steel Summit</td>
</tr>
<tr>
<td>August 7 – 9</td>
<td>NEW YORK</td>
<td>Jefferies Industrials Conference</td>
</tr>
<tr>
<td>August 28-29</td>
<td>CHICAGO</td>
<td>Jefferies Semis, Hardware &amp; Comm Infrastructure Summit</td>
</tr>
<tr>
<td>September 11</td>
<td>PARIS</td>
<td>Jefferies Satellite Summit</td>
</tr>
<tr>
<td>September 12</td>
<td>NEW YORK</td>
<td>Jefferies Fitness Summit</td>
</tr>
<tr>
<td>September 18</td>
<td>NEW YORK</td>
<td>Jefferies Electronic Payments Summit</td>
</tr>
<tr>
<td>September 19</td>
<td>LONDON</td>
<td>Jefferies Specialty Finance Summit</td>
</tr>
<tr>
<td>September 25</td>
<td>NEW YORK</td>
<td>Jefferies Fall Consumer IR Summit</td>
</tr>
</tbody>
</table>

IMPORTANT DISCLAIMER

THIS MESSAGE CONTAINS INSUFFICIENT INFORMATION TO MAKE AN INVESTMENT DECISION.

This is not a product of Jefferies' Research Department, and it should not be regarded as research or a research report. This material is a product of Jefferies Equity Sales and Trading department. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the individual author and may differ from the views and opinions expressed by the Firm's Research Department or other departments or divisions of the Firm and its affiliates. Jefferies may trade or make markets for its own account on a principal basis in the securities referenced in this communication. Jefferies may engage in securities transactions that are inconsistent with this communication and may have long or short positions in such securities.

The information and any opinions contained herein are as of the date of this material and the Firm does not undertake any obligation to update them. All market prices, data and other information are not warranted as to the completeness or accuracy and are subject to change without notice. In preparing this material, the Firm has relied on information provided by third parties and has not independently verified such information. Past performance is not indicative of future results, and no representation or warranty, express or implied, is made regarding future performance. The Firm is not a registered investment adviser and is not providing investment advice through this material. This material does not take into account individual client circumstances, objectives, or needs and is not intended as a recommendation to particular clients. Securities, financial instruments, products or strategies mentioned in this material may not be suitable for all investors. Jefferies does not provide tax advice. As such, any information contained in Equity Sales and Trading department communications relating to tax matters were neither written nor intended by Jefferies to be used for tax reporting purposes. Recipients should seek tax advice based on their particular circumstances from an independent tax advisor. In reaching a determination as to the appropriateness of any proposed transaction or strategy, clients should undertake a thorough independent review of the legal, regulatory, credit, accounting and economic consequences of such transaction in relation to their particular circumstances and make their own independent decisions.

© 2018 Jefferies LLC