Jefferies Prime Services Monthly

SEPTEMBER 2017

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Hurricane Harvey Relief Day
In the wake of Hurricane Harvey, Jefferies' clients, employees and shareholders contributed $5.4 million to 14 organizations providing immediate relief to the victims of the storm. The firm's clients helped to generate over $3.2 million in donations through global net trading commissions on August 30th. Jefferies also contributed $1 million directly, and voluntary donations from the firm's 3,324 employees totaled another $800,000. Thank you to all who donated and made Hurricane Harvey Relief Day a success.

Jefferies

Year of the Old GOATs (Greats of All Time)

In an era that sometimes worships at the altar of youth, 2017 reminds us newer isn't always better. Roger Federer won the Australian Open and Wimbledon at 35 coming off an injured season. Tom Brady, having won his 5th Super Bowl at 39 (and setting the record for most Super Bowl wins for any quarterback), starts this season as a 40 year old many say is playing as well as a decade ago. Floyd Mayweather, of course, came out of boxing retirement to extend his career record to 50-0, besting Conor McGregor in 10 rounds. And Joan Benoit Samuelson is about to attempt to run a sub 3 hour marathon in Chicago….as a 60 year old.

This could either be inspiring (or depressing, for those of us just trying to run a 4 hour marathon at any age) – but it made us wonder… what other "old" ideas might be worth revisiting and embracing as we head into Q4?

1. **Endurance is largely a result of marrying consistency with innovation –** whether for professional athletes or investors, some of the keys to a long career are taking what works and constantly working to enhance your skills – regardless of challenges. As Tom Brady said following Super Bowl LI where the Patriots came back from a 28-3 deficit to beat the Falcons, "That's why you play until the end." One quarter or year of challenged performance does not necessarily derail a career; what counts is remembering what brought you to where you are and adapting as needed.
2. **Don't get emotional about a stock, a swing or a pass.** Not that Gordon Gekko belongs in the same universe as Federer and Brady, but all three acknowledge the mental game is as important as the physical – and many academics agree. Human emotion can be one of the biggest culprits for misguided decision making. For one view on how "predictably error prone" humans can – try Richard Thaler's book *Misbehaving* to read more about why simply being aware of our biases isn't always enough to combat them.
3. **When all the experts and forecasts agree, something else is likely going to happen.** Just ask most of the folks listed above (except maybe Mayweather…they largely called that one).

Jefferies - Capital Introductions August | YTD 2017 Performance

Strategy	Aug-17	YTD 2017
HFRI Event Driven	0.03%	4.92%
HFRI Macro	1.03%	0.94%
HFRI Relative Value	0.27%	3.69%
HFRI Credit	0.37%	4.39%
HFRI Equity Hedge	1.56%	8.64%
HFRI Fund Weighted Composite Index	**0.80%**	**5.51%**

Source: HFRI

MIFID Is Coming

While many in the U.S. have spent 2017 watching the regulatory Game of Thrones in Washington around potential tax, health care, or financial services reform, Europe has been marching on a steady course towards January 3, 2018 – the MIFID II go-live date.

MIFID II – landmark regulation most well-known for unbundling research and increasing transaction reporting requirements – **is expected to have broad impact not just on the investment managers and other market participants in scope, but also via secondary impacts on market liquidity and structure, or competitive drivers spawned by the jurisdictional divergence around research usage, among others.**

Ernst & Young notes, "The revision of MIFID II represents a fundamental change for the European financial markets across a multitude of areas, requiring not only major implementation effort, but also a reassessment of business models."

Much attention has focused on research unbundling and increased transaction reporting requirements, but the full swathe of potential impacts is much broader and more nuanced than headlines suggest.

The Jefferies ETS desk has been hard at work fielding client questions around preparation for, implementation of and potential follow on impacts emerging from this far reaching legislation.

Issues at top of mind:

Scope: The starting point for many …

1. Am I in scope or not in scope….and *am I sure*?
2. If I am in scope, what does this mean for my current day-to-day business infrastructure?
3. If I am in scope, how should I think about license options?

Trading/Workflow/Liquidity: How will my day-to-day be impacted

4. Whether or not I am in scope, what should I be aware of that may impact workflow, execution or liquidity?

- *The Share Trading Obligation,* for example, requires EU domiciled MIFID II firms trading shares listed on an EU trading venue to execute: i) on an EU regulated market or MTF, ii) with an EU systematic internalizer (SI), or iii) a third country trading venue assessed as 'equivalent.'

This means EU investment firms who want to trade a non EU equity (AAPL, for example), that are dual listed on an EU trading venue, may be required to adapt their workflow to determine proper routing for all non-EU but dual listed equities. It's possible this requirement could impact global liquidity profiles for execution of certain equities.

Out of Scope, But Still Top of Mind: For Non-EU Managers

5. If I am not in scope, am I prepared to answer questions from investors about how we use research and quantify its value?

MIFID spoiler alert: winter is nearly here, and 2018 could challenge the unprepared. Much has been solidified, but many questions remain. To discuss MIFID further ahead of the go-live, please contact:

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JEFFERIES CAPITAL CONSULTING NOTES

Postcard from Pittsburgh

The Capital Consulting team's summer travels included a multiday stop in Pittsburgh, home of the Big Mac, the polio vaccine and the NFL's winningest Super Bowl team – the Steelers.

We connected with endowments, family offices, hospital systems and consultants. Among the trends and areas of interest that emerged:

- Pittsburgh investors report **consolidating hedge fund allocations** in the last 12 – 18 months – on average by about 25% - driven largely by poor performance and perceived fee misalignment. Equity Long/Short has been the biggest casualty with most groups trimming here.
- A number are **undergoing asset allocation reviews** which may result in pivoting to less liquid investments like Private Equity *or* reallocating Equity Long/Short hedge funds within the 'traditional' equities bucket to better measure and manage alpha and beta exposures.
- Some investors report an increased desire to more deeply dig into and measure performance over time and vis-à-vis various factor exposures.
- But **investors also report appetite for and interested in niche or uncorrelated return streams** including vehicles as diverse as those focused on film financing, cryptocurrency, life settlements or insurance/IDF exposure.
- Can't talk about trends without hitting Quant – Pittsburgh is interested, but variably. Some investors have done their diligence and are closer to allocating, where others are starting to investigate the space now and recognize it as more a 2H2018 timeline.

Finally, Pittsburgh's growing tech scene was clearly felt. It's not only one of the sites Uber chose as to invest in as a testing ground for their self driving cars (perhaps in part to learn how to navigate local driving quirks like the 'Pittsburgh left'), but it's also home to well regarded institutions like Carnegie Mellon and the University of Pittsburgh Medical Center that are increasingly leveraged to help provide expertise and innovative ideas to the private sector.

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Spotlight on Israel

In the wake of hosting its 3rd annual Israel Tech Trek in June, serving as the key global bank sponsor for the 5th Annual Israel Hedge Fund Conference, continuing to build a leading Israel investment banking franchise, and becoming the first true provider of securities lending services to the Israeli market, Jefferies continues to deepen its focus on the country, partnering with clients and growing our capabilities across multiple products and business lines. Both investors and managers continue to be eager to learn more about the growing, unique and dynamic market.

Of particular note:

- There are **nearly 100 hedge funds currently located in Israel, overseeing $3.5 billion**, with assets doubling since 2011.[1]
- Most of Israel's **$450B of AUM is in the hands of approximately 12 institutions** which are comprised of Insurance Companies, Pension Funds and Asset Managers. Due to forced savings into pensions, the AUM grows each year causing the local managers to invest increasingly in foreign managers and foreign equities.
- Local regulation restricts institutional investors from paying more than 25 bps in management fees – so paying 2% to hedge funds can hurt the overall ratio of hedge fund investments that may be made.
- Recent wealth creation has prompted a growth in family/multi-family offices, and we increasingly see interest from these firms and wealth platforms looking to build or improve on their hedge fund allocations. However, many of these organizations report being in the earlier days of understanding the landscape.
- Majority of assets currently invested are invested in Israel-focused long biased funds or quant funds.
- Investor interest going forward seems geared to more non-correlated beta, global and/or diversified mandates, but fee issues remain challenging.

[1] 2017 Tzur Survey of Israeli Hedge Funds

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SRI Investing

We are also increasingly hearing of interest in SRI/ESG managers; in one case an investor is looking to ramp up exposure sufficiently to hire someone dedicated to focusing on the space. SRI (Socially Responsible Investing) and ESG (Environmental, Social and Governance) is an investment paradigm that considers a company's behavior vis-à-vis environmental, social and corporate governance as criteria for shaping company's performance. SRI/ESG investors are as diverse as family offices, hospital systems, religious organizations, foundations and pensions. More than $62 billion of assets are currently benchmarked to the MSCI ESG indices.

Many of hospital systems and endowments have adopted SRI and UNPRI policies to address: 1) specific investments that are investable, 2) threshold levels of the investments that can be investable, or 3) screening processes by which investments are added to the portfolio. While hedge fund managers have been creating SRI structures on underlying investor demand, there have been more demand via the long only side to date due to the belief that ESG is easier to adopt through long-only equity or via SMA.

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JEFFERIES CAPITAL CONSULTING NOTES

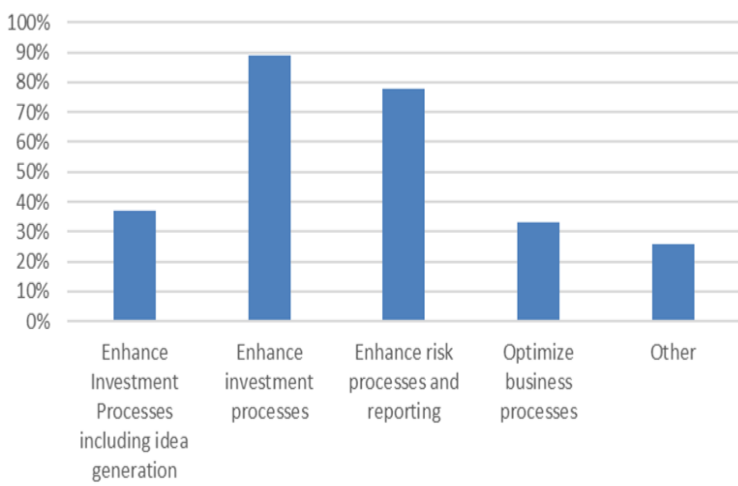
Beyond the Buzzword: Data Strategy

The Capital Consulting team continues its focus on the **practical implications of data strategies at investment managers** this month, releasing a new white paper**, *Quantifying Strategy: A Deep Dive into Data Strategy Implementation*,** and hosting a September 26th luncheon focused on the **legal and regulatory issues arising from increased availability and use of data** at investment managers, with Peter Greene of Lowenstein Sandler.

Quantifying Strategy is a follow up to our earlier piece, *Quantifying Intuition: Data Science at Hedge Funds*, to respond to requests for a deeper dive into how investment managers are **actually** approaching hiring, expense, allocation, strategy and structuring questions. In July and August, we surveyed more than 40 investment managers (many of whom fell in *Quantifying Intuition's* "Early Mainstream" bucket) about their data science strategies.

Responses to two of the top questions we received are charted here:

Primary Objectives for Pursuing Data Strategies



Our interviews revealed the majority of those actively building data efforts are focused on **enhancing their pre-existing investment processes** more so than specifically focusing on idea generation. Many feel the data industry is itself is in nascent stages, and while they expect emerging data sets to be more fruitful in the future, right now there are still considerable challenges to source, onboard, clean and ingest data in an effective manner.

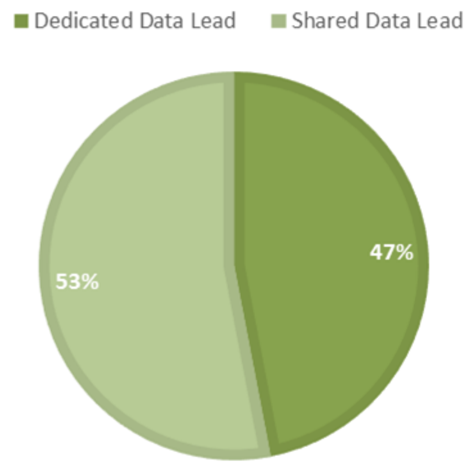
On September 26th , we will be hosting a lunch on the ***Legal and Regulatory issues Associated with the Growth of Data***, in which we will explore questions arising from the growth in alternative data use by investment managers, and include digging into some cross jurisdictional differences emerging as regulators work to keep abreast of the issue.

Welcome Joiners

The Capital Consulting team is delighted to welcome **Katie Dillard** and **Sarah Higgins** onboard. Katie will lead our West Coast and Southwest coverage of hedge funds and investors. She is based in Dallas and joined from the Jefferies Equity Sales team. Prior to joining Jefferies, she served as the Director of Investor Relations and Business Development at Pacific Grove Capital.

Sarah Higgins is based in New York and joined from the Goldman Sachs Capital Introductions team. Sarah will cover managers and investors in the Tri-State and help us continue to develop cutting edge thought leadership and events for clients.

Dedicated vs. Shared Data Lead



In working to understand **who** is managing firms' data efforts, we found **considerable diversity behind data leadership**. More than half of those with active data efforts have a data lead with other responsibilities as part of their portfolio. Dedicated data leads are present in slightly less than half of those working to institutionalize their data efforts.

Who these leads are and where they sit in their organizations is **highly variable.** Of the more than 40 funds we reviewed, data leads **held nearly 20 unique organizational titles**.

Quantifying Strategy will be released in late September/early October.

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JEFFERIES EQUITY RESEARCH DIFFERENCE MAKERS

Top Jefferies Research Reads in recent weeks

Leaders of the Pack:

JEF's Macro Weekly: Living in a Material World; playing with fire

AMZN: Alexa, Are These Grocery Price-Cuts Right?

Reading the Biotech "Yee Leaves" – What's Going On? Sentiment & Key Events

GILD: Here We Go…Adding Kite Blockbuster Drug… Could Help Rally Biotech Sector, Too

EXPE: Implications of CEO Change

Other Notable Reads

- Planet Fitness: Takeaways from Inaugural JEF Fitness Summit
- The Internet Playbook

Global Fund Flows*

- The first week of September (31 Aug to 6 Sep) saw investors remaining net buyers among global bonds (latest: US$6.6bn), commodities (US$1.2bn), equities (US$3.7bn) and money markets (US$25bn). In August, all these assets recorded net injections for the month.
- Global equity funds welcomed net inflows of US $3.7 billion, with the U.S. ending 5 consecutive weeks of withdrawals.
- YTD, Europe has welcomed $77 billion cumulatively, led by French, German and U.K. equities.
- Global bond funds extended their inflow run to 25 weeks (latest $6.6 billion); the $1.8 billion flowing into government related bonds was a year high, and the $1.3 billion into gold was the sole driver of the inflows to commodity funds.
- Full note available here: Equity Strategy Global Asset Fundflow Tracker

*Source: Bloomberg, EPFR, Jefferies. All references to mutual funds and ETFs

Transport stocks have experienced relative bear market performance over the past quarter. Global trade is recovering on the back of a recovery of import and export volumes in developing economies, helped by reflationary monetary and fiscal policy. More importantly, export pricing power is recovering. It is ironic that the global airfreight and logistics index is touching record highs while the 10-year treasury yield is close to 2%! The S&P 500 railroads sectors (the largest sub-component of the S&P 500 transports) have a neat relationship with global industrial production and PMI. The US PPI for freight forward services is exhibiting no deflation. While our investment thesis is based on a disinflationary boom (see US: A Disinflationary Boom (II)), at some point the revival in corporate pricing power and tight labor markets will lead to a jump in inflation. Bond proxies appear dangerous. The improving PMI numbers should lead investors towards the materials sector.

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Silver Linings Internet Playbook

The Jefferies Internet software team released their *Internet Playbook* on August 24th – a more than 200 page industry primer that takes a deep dive into the current state of the Internet and Interactive Entertainment sectors, examining themes such as Cloud Computing, the shift to digital advertising, the convergence of Internet & Software, eCommerce, Online Travel, and Video Games.

Their Top 10 Predictions:

1. FB outperforms GOOGL and AMZN over the next 12 months.

2. FB will grow its reach of the global population to nearly 40% (from 25% today) by '22, adding 50% Upside to Global ARPU.

3. Digital Video Consumption will Grow to 50% of time spent with video from 20% by '22 - accelerating disruption of a $200B Global TV Ad Market (FB, GOOGL, SNAP, TTD).

4. By 2022, AWS will have grown to $55Bn in revenue, with AMZN closing in on $1Tn market cap.

5. 2018 is a breakout year for Google Cloud.

6. AI has all the hype, but only a select few winners will emerge – those with the most robust and dynamic data sets (AMZN, GOOGL, FB).

7. AMZN extends into $100Bn gaming market, launching a Video Game Streaming Service by 2020 (ATVI, EA, TTWO).

8. Travel has no winner-take-all – own a basket of names (PCLN, EXPE).

9. Meaningful outperformance from our small business basket (INTU, GDDY, WIX, YELP).

10. Swipe right on online dating - 50% of first dates will begin online by 2022 (MTCH, IAC).

The full playbook covers: Three Mega Caps and how we got here, a deep dive into Mega Clouds, with Major Takeaways, the State of the IaaS Market and Stock Takeaways, an Overview of Cloud Computing, a focus on the Shift to Digital Advertising (with Mobile and Video paving the way), the internet and software worlds converging, and overviews of the Online Travel, eCommerce and Video Game sectors.

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JEFFERIES STOCK LOAN MONTHLY

Industry Group	8/1/17 - 8/11/17 CHANGE	8/11/17 - 8/21/17 CHANGE	8/21/17 - 8/31/17 CHANGE	AUGUST Monthly Change
Automobiles & Components	0.20%	-0.07%	0.11%	**0.23%**
Banks	-0.28%	-0.14%	-0.05%	**-0.47%**
Capital Goods	-0.02%	-0.35%	-0.06%	**-0.44%**
Commercial & Professional Services	0.06%	-0.03%	0.13%	**0.16%**
Consumer Durables & Apparel	-0.02%	-0.08%	-0.05%	**-0.15%**
Consumer Services	0.20%	-0.03%	-0.13%	**0.04%**
Diversified Financials	-0.08%	-0.02%	0.30%	**0.19%**
Energy	0.70%	-0.74%	-0.20%	**-0.25%**
Food & Staples Retailing	0.38%	-0.21%	0.06%	**0.24%**
Food, Beverage & Tobacco	0.01%	0.02%	-0.15%	**-0.12%**
Health Care Equipment & Services	-0.08%	0.05%	0.07%	**0.04%**
Household & Personal Products	-0.02%	-0.05%	0.01%	**-0.06%**
Insurance	0.00%	0.10%	-0.08%	**0.03%**
Materials	0.06%	-0.01%	0.89%	**0.94%**
Media	-0.07%	-0.09%	0.01%	**-0.15%**
Pharmaceuticals, Biotechnology & Life Sciences	-0.15%	-0.03%	0.06%	**-0.12%**
Real Estate	0.06%	-0.03%	0.29%	**0.31%**
Retailing	-0.28%	0.09%	-0.06%	**-0.25%**
Semiconductors & Semiconductor Equipment	-0.13%	0.31%	-0.19%	**-0.01%**
Software & Services	-0.32%	0.85%	-0.54%	**-0.01%**
Technology Hardware & Equipment	-0.08%	0.01%	0.19%	**0.13%**
Telecommunication Services	0.04%	-0.13%	-0.03%	**-0.12%**
Transportation	0.05%	-0.07%	0.14%	**0.13%**
Utilities	-0.23%	0.64%	-0.72%	**-0.31%**

US Notes:

Implied SI for North America has increased by 3.86% MoM
Utilization: 5.47% (Vs. 5.30% last month)

Industry Group flows:
Short players increased exposure (weighting): **Materials, Real Estate, Food & Staples Retailing, Automobiles & Components and Diversified Financials**
Short players decreased exposure (weighting): **Banks, Capital Goods, Utilities and Energy**

Month in review:
Implied SI increased MoM by 3.86%, flows were steady throughout the month, skewed to short players adding positions.

Brick & Mortar/Retail remains a top focus, Implied Short Increased Month Over Month, led by JCP, AN, ODP, TGT, QVCA, M, WEN, KSS, HD, ORLY, TSCO, BBY & EXPR.

Herbalife (HLF) announced a $600M "modified Dutch auction", Terms: $60-$68 ($0.25 increments) + a 2 year non transferrable contingent value right ("CVR"). We expect demand for borrow (non-elect) from Arbs, Traditional L/S and Convert strategies. (Expiration 9/19/2017, unless the offer is extended)

This graph represents sector movements as a % of total short interest (SI) we see on a weekly basis; green indicates lower utilization, whereas red indicates higher utilization. Source: Jefferies and MarkIt

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Upcoming Conferences & Events		
September 15	HONG KONG	Jefferies 5G & IoT Summit: The Future is Coming
September 27	NYC	Jefferies Consumer Investor Relations Summit
October 11	LONDON	Learn 2Quant London (Jefferies Co-sponsor)
October 11	LONDON	Jefferies Hoare Govett UK Companies Forum
October 12	NYC	Jefferies Gene Technology Investor Summit
November 1-2	HONG KONG	Jefferies 7th Annual Greater China Summit
November 8	LONDON	Jefferies 2nd Annual London BDC Summit
November 15-16	LONDON	Jefferies London Healthcare Conference
November 28-29	HOUSTON	Jefferies Energy Conference
November 29-30	SAN FRANCISCO	Jefferies West Coast European Consumer Conference

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