

Jefferies Prime Unit Targets Midsize Funds

The new effort brings the bank into frenzied competition for hedge fund trading business

Entering a business cluttered with competitors, **Jefferies & Co.** is officially launching a new prime brokerage effort on Oct. 2 that will be headed by **Glen Dailey**, a longtime prime brokerage pro.

The firm is facing a multitude of competitors, ranging from such Wall Street giants as **Goldman Sachs, Bear Stearns, Morgan Stanley, Credit Suisse, Deutsche Bank** and **JPMorgan**, to the mini-prime brokers, including **Grace Financial** and **M.S. Howell**, that cater mainly to tiny start-ups. The biggest prime brokers, meanwhile, are scrambling to capture the business of the top 300 or 400 hedge funds.

"If you look at the broader market, Jefferies entering into the prime brokerage business is a bit of a stretch," says **Josh Galper**, managing principal of research firm **Vodia Group** in Concord, Mass. "I would expect them to gather market share but not become a first-tier player."

The Jefferies' effort, however, does have its strengths. Dailey has long

experience in the prime brokerage business, especially catering to hedge funds in the group's targeted sweet spot of \$25 million to \$1 billion in assets. He joined Jefferies in February, bringing with him five colleagues from **Banc of America's** prime brokerage unit, where he worked for 12 years and held the titles of managing director and chief operating officer. Dailey co-founded **Montgomery Securities'** prime brokerage business, later acquired by BofA, and was a managing director in **Furman Selz's** prime brokerage unit. During his tenures, all three firms targeted midsize funds.

Furman, now a part of **ABN AMRO**, is acclaimed for pioneering a business model that provides smaller hedge funds with the kind of high-touch service they would be unlikely to receive from the biggest prime brokers. "It's a different world than 11 years ago, so I wouldn't say we are a copy of Furman," Dailey says. "But our focus will remain service and technology."

The biggest prime brokers, typically units of Wall Street's bulge-bracket firms, tend to build much of their technology in-house, providing clients with state-of-the-art trading platforms, algorithms and global access to remote exchanges. Jefferies, on the other hand, has opted for a platform integrating "best-of-breed" components.

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Those components include **Advent Software's** Geneva fund accounting system and **Advent partner Netik's** investment data warehouse and reporting services, **Algorithmic's** risk reporting engine, and **Townsend Analytic's** RealTick electronic trade execution system.

While Jefferies' platform may lack the innovative bells and whistles developed by the in-house IT departments at first-tier prime brokers, its

current cache of businesses lends credence to the high-touch service model Dailey intends to provide. Vodia's Galper says Jefferies is already a leading trading firm for small and midsize hedge funds, supporting 175 equity sales traders and 70 traders in New York and London on its securities lending desk who service hedge-fund clients.

In addition, Jefferies' focus on providing investment banking services to middle-market companies should provide a helpful bridge for capital to

move back and forth among investment banking, hedge fund and wealth management clients. Hedge funds may be interested in financing opportunities generated by Jefferies' investment bankers. Meanwhile, Jefferies has increasingly sought to serve the investment needs of the top executives of its investment banking clients, bolstering its private-client group last fall by hiring **Charles Baber** away from **Bear Stearns'** private-client branch office in New York. Building a roster of hedge funds will

provide more investment options for those wealth management clients.

Jefferies already had a small prime brokerage platform serving a few hedge funds, and existing relationships, that number has climbed to 10 as Dailey has built up the unit over the last seven months to a staff of 15. "We'll have a couple of sales hires outside of New York toward the end of October, and we'll probably add more sales people at the beginning of next year," Dailey says.

— John Hintze

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