Jefferies Financial Group Investor Meeting
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PARTICIPANTS:

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Teri Gendron, Chief Financial Officer

Chris Kanoff, Global Head of Investment Banking

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Mike Sharp, General Counsel

Operator: Before introducing today's first speaker, we are required to remind you of the following. Certain statements made during the course of today's meeting or contained in the accompanying presentation materials may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and/or the Private Securities Litigation Reform Act of 1995 regarding Jefferies Financial Group, Inc., Jefferies Group LLC, and the respective subsidiaries. These forward-looking statements reflect the respective issuer's current views relating to among other things, future revenues, earnings, operations, and other financial results. It may include statements of future performance, plans and objectives. Forward-looking statements may all also includes statements pertaining to an issuer, strategies for the future development of its business and products.

These forward-looking statements are not historical facts and are based on the respective issuer's management expectations, estimates, projections, beliefs, and certain other assumptions. Many of which by their nature are inherently uncertain and beyond management's control. It is possible that the actual results may differ possibly materially from the anticipated results indicated in these forward-looking statements. Accordingly, readers and participants are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict, including without limitation, the cautionary statements and risks set forth in the respective issuers annual and quarterly reports and other reports or documents filed with or furnished to the SEC from time to time, which are accessible on the SEC website at sec.gov.

This information should also be read in conjunction with each respective issuer’s consolidated financial statements and the notes there too contained in the annual, quarterly and periodic reports filed by such issuer that are also accessible on the SEC website at sec.gov. Any forward-looking statements made by an issuer herein are unique to that issuer and not to be attributed as statements made or endorsed by any other issuer.

It is now my distinct pleasure to introduce Mr. Rich Handler, Chief Executive Officer of Jefferies Financial Group. Mr. Handler, you may begin.

<<Richard B. Handler, Chief Executive Officer>>

Good morning and welcome to Jefferies Financial Group’s 2021 Investor Day. My name is Rich Handler. I’m proud to be the CEO and I’m looking forward to our management team showing all of you what Jefferies looks like today and what we believe the opportunity is going forward. We’re entering our 60th year this month of Jefferies as a company. And I’ve been around for half of that period, believe it or not, and our team has managed the company for over one third of our company’s life, kind of crazy. The last seven quarter results are outstanding and show we are at yet another level, but this is mostly a testament I’d like to thank the decades of hard work and commitment by thousands of our folks. I really appreciate a lot of people took our company to the point where it is today and this is a huge milestone.

In fact, in my thirty-one and a half years, Jefferies has never been in a stronger nor more exciting place or position of strength and opportunity and I mean that in terms of talent, culture, our competitive position, diversification, our client base, our capital and our brand. I particularly like to thank our shareholders for allowing us to be both long-term and strategy while knowing and acknowledging we have always had a keen sense of urgency when it comes to execution. Building a world-class full service, global investment bank is not easy. Many people have tried, many people have had it and lost their way, very few had the consistency drive, talent, humility, and perseverance to succeed. It not only takes the right team, but it also takes the right shareholder base, bondholder support and board of directors to allow a company like ours to be built. Fortunately, we have all three and that has allowed us to navigate and weather the volatility and cross currents that permeate our complicated industry.

The result we believe is an incredibly valuable, exceptionally unique and important company that is in the very early stages of being recognized in terms of value. One promise I can make to all of you is that the entire management team will always think like owners. This means we must be heavily staked alongside of you as we are. It means our strategy must be well articulated and be executed every day while staying true to our long-term vision. We are determined to build the best world-class global investment bank. We're going to further simplify and eventually optimize all of our non-strategic assets. We're always going to prioritize and serve our clients that will always come first. We will maintain the most secure and robust capital base that is required for all types of market environments. We'll be keenly focused on the appropriate risk adjusted return on equity and we'll return capital to shareholders will never prudent and available.

Our firm is very different today than it was pre-COVID, but COVID is not the only reason why we have blossom, is even the major reason why we have blossomed. We spent the past three to five years before COVID investing heavily in our platform and setting ourselves up for where we are today. In 2015-16, we have repositioned our equity and fixed income businesses to align them more fully with our investment banking business. This meant further improving our ability to distribute and provide liquidity and quality research for all investors who look for alpha in our broad array of banking clients.

As an aside, I think, we have a large prop trading, but we also sought to further minimize prop trading. We've put a flag in the ground and cleared that we were going to devote most of our time, energy and resources into scaling and diversifying our investment bank. It's fee-based 70%, repeat clients, so it's recurring, it's scalable and is higher quality of revenues and earnings. And that meant hiring world-class bankers, building up Europe and Asia and strengthening our global research capabilities.

We also began aggressively shrinking our merchant bank to the point where it is now the tail and no longer the complicated dog. And we deployed that capital into Jefferies as well as return to shareholders. Back to thinking like owners, in the last three years we have returned $3.7 billion or 47% of Jefferies tangible equity to shareholders. And our remaining tangible equity is still $650 million higher than we started. This includes repurchasing 125 billion shares for $2.64 billion at a now attractive looking price of $21.20, decreasing our share count by 27% over the same period. Basically, the market gave us an incredible opportunity and we pounced for the benefit of our long-term shareholders.

Basically, we significantly simplified Jefferies, invested heavily in our core business, returned a large amount of capital and scaled our business to point, but we feel confident we're very well positioned to earn more than an acceptable return on equity at Jefferies for our shareholders. Our plan is to continue what we started. This was all set up before COVID and then the world changed. And for many reasons, our firm was able to pivot quickly and perform exceptionally for our clients, which in turn resulted in perhaps accelerating the benefits of our hard work we all did pre-COVID.

There are a handful of important reasons why we were able to flourish during COVID. First, second, third, and fourth (and keep going) are our people and our culture. We value our people greatly. We trust them and more importantly they trust each other. They're highly confident in what they do. They're committed to their clients and to Jefferies and they truly care. We're flat, non-bureaucratic, and our people are nimble, humble and have a passion to build their company. This is very rare in our industry today.

After many years of hard work and dedication, we have hit critical mass at almost all of our core businesses and the breadth of diversification and capabilities rival firms much larger than ours in mass and people. Our technology is spectacular and our support and infrastructure capabilities are as effective if not more so than many of our larger competitors, all you have to do is ask our clients. And not only is our technologies serving our clients, but internally we're using it to drive efficiency and productivity. Our depth and breadth of management is incredibly robust with people who know our mission, understand our risk profile, command loyalty with respect from their teams as on a mission alongside us to build a company they're exceptionally proud of. Some of our competitors have stumbled and we have been always aggressive and opportunistic and that is right and that is one of the reasons why we've also been successful during

COVID. Finally, we will never get arrogant, complacent or lose our sense of purpose and drive.

There are many reasons why I’m excited about the future more so than ever in my history with the firm. And before I get there, let me just stress that the market changes often and there are always risks, setbacks and challenges. Nothing goes up in a straight line and one must always be prepared for adversity as it comes when you least expect it. Some of our best moves have been accomplished when the markets are upside down and it’s going to happen again. We need to stay healthy whenever that occurs. With all those disclaimers, let me explain why I’m really so excited about our future.

Even with our exceptional growth these past two years, there is substantial room for growth and market share gains in 100% of our businesses at Jefferies. There are many subsectors of our banking industry groups that are wide open to us. There are adjacent products we just entered or are about to enter. There is regional expansion, for example, we are opening an office in Spain for banking and fixed income. We’re about to go to the Persian Gulf in Dubai for equities and a view towards banking. We’re going to build upon our tremendous foundation in Israel. We’re also going to build upon our solid foundation that we have now in asset management.

Our people want to be at Jefferies for all the right reasons and more than ever before. Other great people in our industry also want to be here now, and their clients want them to come. The depth and breadth and management of our team continues to evolve. In the last 12 months, we hired a new CFO and by the way I know Peg is looking down on us with very tremendous pride and we miss him every day. We’ve hired a Chief Risk Officer, a Chief Technology Officer, a Branding and Marketing Leader, and we’ve transformed our HR offering and integrated it into all of our businesses. We’ve transformed our board of directors to a super talented, diverse slate that more closely reflects society, and will provide us with a range of voices and support. Our brand while always capable of improving has become an asset and one that we will continue to invest in.

Reaching critical mass and size and ability to deliver ROE allows us more freedom to invest in our people from a career training, skill enhancement, ESG, diversity inclusion, quality of life, and long-term partnership perspective. We’re clearly a top 10 firm and top five in so many of the things we compete in led by investment banking, but we have a great position in equity, fixed income and research. We have more flexibility to invest for the long-term than ever before. Our success in our main business means our merchant bank is no longer enough of a drag to harm us along our path to optimize value. That doesn’t mean that we don’t have a keen sense of urgency to further divest. It just means we can continue to get every dollar of value for our shareholders without a significant short-term penalty and we believe there is a lot of value that we intend to get.

Our trading businesses have already returned to normalcy as volatility and volumes more along the lines of pre-COVID. The market shares we have made with our clients have stuck, and we don’t intend to ever take them for granted. In fact, we intend to build upon them on a higher base. And finally, one of the reasons why I’m so excited about the future is our investment bank is truly world-class. Over $4 billion of revenues this year is real. We have hit a new level of relationships, capabilities and importance with our client base. We intend to build upon this. It’s incredibly exciting.

With that, I’m going to turn over to my partner, Brian Friedman and in turn the rest of our team to give you all the specifics behind these themes and we hope you will understand why we believe we are so excited, and in what we believe to be the very, very early of days Jefferies’ true build out. Thank you. Brian, over to you.

<<Brian P. Friedman, President>>

Thanks. Rich. As Rich just said, we’re going to try today to share with you our business through our eyes. I will provide a brief overview on our overall business and some of the recent developments, and then we will turn it over to the leaders of our various business areas, and they will give you a more detailed view as they see it.

Next slide, please. You can look at this slide and say that what you’re seeing is the picture of a growth company. You see the revenue compounding at a pretty good rate, and then you see the net earnings, not just compounding, but ultimately the margin expansion. If you now put this into practice on the next iteration of this slide, what you see is a picture of Jefferies through the last three plus decades. As Rich suggested, we have taken a very long-term view of building Jefferies.

We have not hesitated from year-to-year to make investments, to make decisions, to persevere through difficult moments to build in difficult moments. Some of the best growth that we have achieved has been in the face of adverse times. By taking that long view, we've been able to achieve the decade upon decade upon decade growth that you see in this chart. We believe that this is a sustainable strategy. As you're going to hear we believe there is still a lot of opportunity latent for us to take advantage of, and we see Jefferies as a continuing growth company. Our strategy has benefited from continuity, consistency, patience, perseverance.

The next slide please. With investment banking as the overriding driver, we have driven initiatives throughout our business to constantly drive growth. Our business is one of delivering insight and execution, whether it's our investment banking business, our capital markets business or our asset management business. When we get up in the morning, it is about our ability to use our resources, our information flow, our experience, our team to bring to our clients' ideas and insight that can help them succeed and then our second job is to execute to achieve their goals. And this is true in the daily trading. It is true in corporate growth. It is true in capital raising. It's true in everything we do. The ultimate goal is to bring strong returns to our shareholders, and we are focused, aggressive, but highly disciplined in seeking to do this. As Rich mentioned, there has been a step change in our results and our market position yet again. This is not a new experience. It's not a surprise experience. It's the result of our efforts along the way.

Sorry, I think there's a little interference there for a minute. But what you've seen in the last seven quarters, and now we're on Page 6, in the last seven quarters, which started, as Rich mentioned, pre-COVID is that we are at the next level in market position and results. Investment banking is our leading business, our largest business and the driver of overall growth across the business while our equities, fixed income and asset management businesses at the same time drive initiatives for their own direct growth and for the collective growth.

In investment banking, we believe we are far from done. We entered this year with 226 managing directors at Jefferies Investment Banking and an additional 23 at Jefferies Finance. We expect to end this year at approximately 270 managing directors based on the hires that we have made to date, some more that we have in process, as well as promotions at year end and will be 270 at Jefferies and probably another approximately 25 at Jefferies Finance. That 270 represents a 20% increment on where we started the year, so we start next year with 20% more MDs leading the way for our number one business in investment banking.

Our equities momentum, you will hear from Pete a few minutes, Pete Forlenza, who leads that business, also has meaningful momentum and has continued to gain share on a global basis. Our research effort in the U.S., in Europe and in Asia is number eight or better on a valuation basis for the quality and depth of what're offering our clients (again third party reports).

Our fixed income business continues to strengthen and edge out into adjacent opportunities. Our revenues are not just diversified, but they are also lower risk. Our business is content-driven and not risk-driven. This is all exemplified in our recent results.

Page 7, please. What you can see here is that the nine months of 2021 on almost all counts approximate 2020's full year. That's what a growth company does. In the course of the rest of today we hope you will appreciate the durability of our market positions and our business momentum. When you look at Slide 8, you see another beautiful 30-year picture. This is the growth in our investment banking business, our number one business.

On Page 9, you see the underlying detail of the last two and a half years. This goes through the middle of 2021, so it's 2019, 2020 and first half of 2021 compounded growth rate against the 2018 base. And what it's showing is that in each of our businesses, we are delivering compounded growth well in excess of the industry growth rate from standard tables. So, it shows the market share gains that we've achieved and that they are across the board in our key businesses.

On Slide 10, we drill down further on the investment banking side. And what you see is that in 2010 Jefferies was number 17 in the global ranking and today we are number eight. What you see equally importantly is that we've moved to be number six in global M&A, the toughest business to penetrate where the decisions are most distinct and at the highest levels inside all of our clients and potential clients. So that leading the way for our business is a critical element in our existing success and our future potential. What you can see is that our business, that the industry, if you look at the bottom of this table in the last 11 plus years, our industry grew at less than a 4% compounded rate. And yet Jefferies Investment Banking grew at a 27% rate meaningfully, obviously ahead of the norm.

On Slide 11, we address the sales and trading capital market side of our business, and a very similar picture. Our equities market share has gone up on more than 60%, our fixed income business has advanced by over 33%, combined they've advanced by greater than 70%. And as you can see in the bar charts on the right, the last two bar – the last bar in each of the two boxes, we've been able to do this with incredible operating leverage as our head count went up modestly. In a few minutes, Pete Forlenza in equities and Fred Orlan in fixed income will give you the background to how we've done this in a bit more detail.

Supporting what we do on Slide 12 are the significant partnerships, three of them that we have with great partners, MassMutual Insurance, Berkshire Hathaway, and most recently Sumitomo Mitsui, SMBC, the large Japanese Bank. These three partnerships give us the opportunity to scale our business more rapidly and more consistently, and yet in an extremely risk managed way as our partners share the upside and the opportunity, but also share the risk, allowing us to take a more aggressive posture in how we develop our business.

Jefferies Finance is a leader in leverage finance, one of our key businesses. At the joint venture is where we house our balance sheet and our risk. Chris Kanoff, Head of Investment Banking, will go into more detail on this, but suffice it to say that in the time that Jefferies Finance has been in existence, we have originated over $275 billion of loans for our clients and this has been the key driver of operating opportunity for greater Jefferies.

When you look at Page 13, you see our partnership with Berkshire Hathaway, which is Berkadia, that's one of the leading providers of multifamily finance and merger and acquisition services. In the last 12 months, we've originated $33 billion of loans to our clients, and we've completed $16 billion of M&A in the multifamily space. We're driving growth with a deep focus on our talent, our culture and our technology, the exact same play book that we use across Jefferies. Berkadia is a very valuable business with a meaningful long-term opportunity that we will continue to support and drive.

On Page 14 is our newest and what hopefully over time could become our most significant partnership. Approximately five years ago at our Investor Day, in response to a question, we said that we could envision a strategic alliance with a global bank and we mentioned that we thought that it could really help drive our strategic growth. That opportunity has now come to fruition in our broad long-term alliance with SMBC. Among other things, they’ve announced their intention to become an approximately 5% shareholder in Jefferies.

Our priorities initially were the recapitalization of Jefferies Finance with financial support from SMBC and an ongoing partnership to drive the growth of our leveraged finance origination capabilities. Second priority is to focus together on larger clients, investment grade clients, where Sumitomo Mitsui has a meaningful set of relationships and a meaningful loan book. We’re starting that effort with a focus on our largest investment banking industry, which is healthcare and through alignment we hope to achieve meaningful, incremental opportunity for SMBC and Jefferies.

Our third priority is to develop the cross-border opportunity coming out of Japan with SMBC’s leadership position there combined with our global capabilities across our business. We actually have a fourth initiative, that is beginning to take shape, and we expect to broaden the daily contact and the activity that the two firms are working on together on a consistent basis moving forward. It will take time for this to generate material results that move our dial further. But with the early wins that we've had, and we've already had a couple, we see our SMBC relationship as incredibly significant to our future.

On Slide 15, you see the growth in our asset management business, even though this too is in its very early days. Our focus is on alternative asset management with a substantial focus on liquid securities in equities and the debt markets, it's a natural opportunity for us, it's something that we believe we can build and grow with minimal to no goodwill investment. And in the last 12 months, we've generated $428 million of revenue from this business of which $115 million were fees and profit share. Again, it's early, but, Nick Daraviras and Sol Kumin the Co-Presidents of this business will give you more detail that, I think, will give you a sense of both our strategy and the opportunity.

On Slide 16, as Rich said, the Merchant Banking business for us is now a legacy and our goal is to realize reasonable value in a rational timeframe. Our patience has been very profitable. When you look at this today, the two overriding keys here are our oil and gas business and Linkem. In the case of our oil and gas businesses, primarily Vitesse, for sure, the prices of oil and gas are going in the right direction, and we expect will create opportunity for our interest. At the same time Linkem is completing the implementation of 5G across its network. And that should put Linkem in a position for further value creation and for strategic opportunity.

Our estate business, primarily HomeFed, continues to perform very well. Our major project in Otay is selling well, creating meaningful assets on the multifamily side. Most recently we sold off a self-storage business that we created there on land that we own. We see continued optimism for what can be done at HomeFed. The other significant asset there, the Renaissance Plaza project in Brooklyn over the next two years should see next steps in its iterations.

I want to single out for a moment Idaho Timber. Two years ago, we would have shown you a slide that showed a fair market value in the $150 million, $160 million range. In the last 21 months, okay, last year and the nine months of this year, we have received $155 million of cash from Idaho Timber. So, it's an example where patience and understanding where the opportunity is can really pay off. It's been an exceptional period for lumber, Idaho and its management team has navigated it exceptionally well, but it validates our continuing to hold the business as we think about the long-term destiny. As Rich said, we are committed to merchant banking becoming less and less prominent in our story and we believe that will be achieved in relatively short order.

If you look at Page 17, it's just in my view, validation of why we are patient. And you can see that we, for example, took advantage of liquidity when it was available at premium prices. And we hope to do that again over the next periods of time.

On Page 18, we talk about the four initiatives that are overriding across Jefferies and fundamental to continuing to drive growth for us. The first of these is a very affirmative and thoughtful effort to drive talent development. Over the last four or five years, we developed curriculum for all levels within our business, we are training our people and cross training them in all what we do and how we do it. We’re beginning a process toward individual career planning, but an immense focus on teams and individuals.

Similarly, our project Madison, which is now about four years old, is our effort to digitalize the front office of Jefferies through data management, through the use of artificial intelligence and essentially a process to empower each individual, to be able to be in the maximum position to deliver Jefferies consistently.

On Slide 19 the two other critical strategies that we are driving are around branding, where, as Rich mentioned, we appointed new leadership in the last several months. Our goal is to drive our brand to reflect our reality, the reality of our firm, the reality of our market position, the reality of the depth, breadth, and quality of what we offer to our clients and to the world as our business has grown at meaningful rates and sometimes hard to keep the brand up to that, we think we have a gap that we can close over the next several years. And you will see us taking active efforts to do that.

Finally, as Rich mentioned, we have been leading both inside of Jefferies and in advising our clients in all aspects of ESG. We are building a meaningful ESG research effort that we believe will be a leader in our business. We have brought diversity to our Board of Directors and are driving diversity across our team. We built employee resource groups and we are also driving transparency to assure everyone knows everything and all opportunities are available and shared.

Finally, we've continued our longstanding focus on serving our community and those in need around the world. In the last year and three quarters alone, we've raised $26 million and donated our own money as part of that to serve those both in the U.S., in Europe, in Asia, in Africa and in Latin America.

Finally on Slide 20 is the summation of all of this. And Rich pretty much touched on this, which is we are delivering shareholder value as rapidly, and as consistently, and as broadly as we can. In the last five years, our dividend has quadrupled, our cash dividend. In addition to that, as Rich mentioned, we bought back 132 million shares at $21.19, slightly over $4 billion back to shareholders in less than six years. As Rich said, we are shareholders. We are committed to realizing and driving value for all our shareholders. We are long-term with sense of intense urgency.

I'm now going to turn it over to Matt Larson and Teri Gendron, our Chief Financial Officers. Matt at the Jefferies Group level, Teri at the Jefferies Financial Group, Matt?

<<Matt Larson, Chief Financial Officer, Jefferies Group>>

Thanks, Brian. Slide 22, please. Thank you. Most of you have seen our financial results as we published them throughout the year. So, I'll just spend a few minutes here talking about the results and making a couple of points. From a revenue standpoint, when we stood here last year, we talked about gaining share and having significant momentum. And I think as you look through the results, and Rich and Brian have touched on this, that momentum and that share gain has really manifested itself in all aspects of our business, really in particular focused on advisory and equity underwriting, leading the way.

From an equities market standpoint, we continue to have momentum and gain share. So, a lot of that has come from international cash equities, electronic trading, and global convertibles. From a fixed income standpoint, while things have slowed from an extraordinary 2020 standpoint, it's remained resilient and we've continued to expand share in U.S. securitized products, EM credit, European CLOs, and other parts of our business.

As we've talked about, having that strength of capital markets has really been an important foundational driver and able to support the growth of the international investment banking business. And finally, albeit relatively small in the context of our overall results, we are gaining momentum in asset management with strong growth and underlying fee revenue from our existing platforms. And we continue to build out new strategies.

From a non-compensation expense standpoint, again, in last year's presentation, Rich and Brian talked about a couple of key strategic priorities, one being investment in talent, and one being investment in technology. And you'll see those coming through in our results in the current year. Our tech and communications costs have increased moderately and we've invested in core capabilities such as electronic trading, Madison, which is our digital client and analytics platform, as well as investments in our core operating infrastructure for things such as data center investment, cloud, cyber resiliency, and our overall data strategy.

A large portion of the increase relates directly to the increases in revenues on the top line from things such as brokerage and clearing fees and IB deal related costs. And investment in our people has translated in increase in professional fees related to the recruitment costs of the important growth in our investment banking businesses, as Rich and Brian spoke about. We've continued to benefit from lower business development costs, but we expect that that will start to increase as we have more in client – in-person client meetings, conferences, and the like.

That said, we don't expect to return to pre-COVID levels in the near-term. From a compensation standpoint, very simply what you're seeing is the operating leverage come through that we always said would be available on a higher revenue base. Next slide.

You've heard a lot about over time, Jefferies Group being the material driver of returns for our consolidated results. This slide demonstrates the progress, not only achieving a strong return on tangible equity, but also shows how Jefferies Group’s returns are the primary driver and an increasing proportion of the Jefferies Financial Group consolidated returns for the past couple of years. As Brian mentioned earlier, this converging trend should continue as we grow both Jefferies Group and exit the merchant bank. Next slide.

You heard from Rich and Brian as well about how our businesses evolve to be more fee-driven and less risky. This slide helps demonstrate that graphically for over 75% – or 70% of our business comes from less risk intense sources, such as investment banking fees, equities commissions, and other fee related activities. This is the overriding result of growing our global investment banking business, expanding a commission driven global equities business and repositioning our fixed income business. And in just a little bit you'll hear from the business heads on how their respective businesses are intended to grow and how it might impact this over time.

Next slide, the way that we've grown the business over time and the investments that have been made have translated to what we think is now a new and increased pace in our capital markets business. We've invested in such a way that the revenue creates a more meaningful and durable baseline. The chart here shows how equities and fixed income quarterly averages evolved over the last two years. If you look at 2018, 2019, a combined basis, we averaged approximately $330 million in combined capital markets revenue. And that's grown to approximately $500 million over the past couple of years.

And in calculating the more recent averages we excluded our three highest quarters that we've had, which is the second quarter and third quarter of 2020 and the first quarter of 2021, which we think were disproportionately impacted due to COVID related volumes and volatility. The primary growth has come from Asia equities, electronic trading, and convertibles, as well as securitized products in the U.S. European credit and distressed and the launch of our international CLO business. Next slide.

Yeah. And we've done all of this on consistent, tangible leverage of about 10 to 10 and a half times, very modest level three assets, which we've been consistent in for quite a long time. A very conservative liquidity and funding position with excess liquidity of $9.2 billion or 18.3% of tangible assets and we maintain a long-term secured funding profile. We have a sound long-term capital base, which we bolstered even further last week when we issued a $1 billion 10-year unsecured note at very favorable rates, which extends our average maturity from 10.2 years, that you see on this slide to over 11 years and allows us to replace $750 million of higher interest that was due in January of 2023.

With that, I'll turn it over to Teri Gendron.

<<Teri Gendron, Chief Financial Officer>>

I'll be starting on Page 28. On Page 28, we're showing our consolidated operating results with our revenues categorized by segment. Obviously, Jefferies Financial Group is substantially the investment banking and capital markets and asset management core businesses within Jefferies Group. Our recent merchant banking revenues have been exceptionally high because of the dramatic spike in lumber prices. Our year-to-date revenues from merchant banking of $888 million; Idaho Timber an investment with the book value of under $100 million has contributed 50% of those revenues.

No one can predict the future, but we believe Idaho Timber will normalize over the upcoming quarters. As you heard from Brian, their substantial profit ranged from $30 million to over $50 million on a quarterly basis to that last two quarters of 2020 in the early quarters of 2021. Our estimated merchant banking fair values never reflected this unexpected spike. As our investment banking and capital markets and asset management segments continue to strengthen, we look forward to them comprising and even greater proportion of our consolidated results, except of course, for the larger impact, hopefully related to gains on merchant banking dispositions, as they're completed.

Looking at Page 29, we're showing our consolidated balance sheet. It's substantially similar to what was just in that section with the addition of the merchant banking portfolio and parent overlay, which contribute just under $6 billion of the $58 billion of assets you see here. On the asset side, the only balances impacted in a meaningful way by merchant banking and corporate are cash and cash equivalents, of course, by our parent level liquidity, loans to and investments in associated companies where you'll find investments such as Linkem, receivables, which hold securitized auto loans of our Foursight Investments and other assets where we include our real estate, oil and gas assets and to a smaller extent, our timber inventory.

On the liability side, it's primarily other secured financings from Foursight and long-term debt that have been meaningfully impacted. On Page 30, we further illustrate what you heard earlier. Since we started our program of managing down the merchant banking portfolio and returning excess capital to our shareholders, we've cumulatively reached $3.7 billion in capital returns, 47% of our tangible book value at the start of the program. Throughout this, we've maintained low debt on a company wide basis and ample liquidity. Currently, we have liquidity on a consolidated basis of $11.5 billion, $2.3 billion of which is at the parent level.

On Page 31, we emphasize some key points on the progress we've made with the legacy merchant banking portfolio. Managing down the portfolio has provided a significant amount of excess liquidity, a large share of which we have returned to our shareholders. We've also enjoyed material gains that are past monetizations, which we hope continues to be the case in the future. And the growth in our core business, simultaneous with the reduction to our merchant banking portfolio to less than two billion has helped reduce volatility in our results on an ongoing basis.

With that, I'll turn it over to Chris Kanoff, our Global Head of Investment Banking.

<<Chris Kanoff, Global Head of Investment Banking>>

Good morning. Over the next few minutes, I will be giving you an overview of investment banking department. Next slide, please. This is a straightforward picture of our business. But increasingly the number of firms that look like this is shrinking. We believe today that we are unique in the world by virtue of the fact that we combine a number of attributes that differentiate us from our competitors.

And I'll go through these attributes quickly. One, we're global, we’re full service. We're nimble, and we're responsive. We are integrated with the firms’ capital markets, research, sales and trading, and other capabilities. We have sector depth, which is second to none. We have product capability that is equal to or better than any of our competitors. We're relationship, as opposed to transaction oriented. We think this is a critical differentiator. When you put all this together, we bring exceptional insights, solutions and execution to our clients, which we think differentiates us from some number of very large commercial banks and many boutiques, which have limited capabilities.

Today, we operate through seven sectors, industry verticals, 1,200 professionals across 14 countries. We cover approximately 4,000 companies and over 500 PE firms, which we believe is more than any firm in the world. Next slide, please. So, in this slide, you see are the number of sectors that we cover. We think this is differentiating. Today we cover 91 sectors, 22 of which are new since 2019. And I point this out because it takes a sector, a new sector, 18 to 36 months to really develop and contribute to our revenues. So, we've got 22 that are just coming on. Next slide, please.

This slide gives you a picture of our performance over the last five years. And for the nine months ending August 31, 2020 and 2021 and further breaks out the revenue by our three major products, equity, debt, and advisory. Our M&A practice is actually made up of M&A advisory, restructuring and private capital advisory. As you can see, we had record revenue in 2020, and the momentum has continued into 2021 with record nine month revenue at the end of the third quarter. Our growth has come largely through increases in our number of MDs, but actually more importantly through the increased productivity of our MDs. And if you look back over the last five years at revenue per MD it's more than doubled, we think this has come about from consistency of our effort, increased brand recognition and our ever-increasing depth of expertise. If you go to the next slide.

This is our picture of our global rankings. We've been investing in investment banking for the past 30 years as Rich mentioned earlier, we're currently ranked eighth globally against all investment banking providers across the world. You can see on this slide, we're nipping at the heels of Credit Suisse and Barclays - we're proud of that - who are the current number six and number seven providers. And in the U.S., we actually bump up above Citibank. And again, we're only a hair behind Credit Suisse and Barclays, and we feel like we're coming on. Over the past five years, Jefferies and the other five U.S. based competitors we've all increased market share. We've really taken that at the expense of the European, our European competitors, which honestly just have not recovered from the financial crisis back, 11, 12 years ago, if you go to the next slide. You can see further strength in our business. So, this looks at each of our – rankings looking at each of our major products. The first one on the left is the M&A ranking, which is number six.

As Brian mentioned, we're particularly proud of that. This is one of the most competitive pieces of business to try to access it is the decision that is most important to the company it's almost always directed by the CEO. In the last 12 months our average deal size has increased 49% from $1.3 billion, up to $1.3 billion up from $853 million. In addition, we signed over 113 deals compared to 39 deals that were greater than $1 billion, true momentum with that product. In ECM and leveraged finance, we succeed as a leader despite having to compete with revolvers and other services that commercial banks can provide with their immense balance sheets.

In ECM, we ranked seventh globally, and in the U.S. overall, and importantly, we acted as a book runner to one in six U.S. IPOs last year and we ranked six based on the number of book run IPOs in the

U.S. Our ECM business in the latest 12 months, it's more than doubled to $1.5 billion. We ranked eighth globally in leveraged finance for single B and below issuers at sixth in the U.S. a great momentum in this business as well for the latest 12 months, we were left lead on 117 deals. This is up from 83 deals the same period last year, it's a 41% increase. The increased number of deals is reflected in our revenue where underwriting revenue has more than doubled to $921 million, up from $438 million in the prior period. Next slide, this is a slide on, actually one of the slides I'm most proud about. It's a testament to I think our strategy of relationship banking and the service we provide to our clients. These are returning clients and they provide us with a solid base of business each year. At the same time, we were adding a meaningful number of new clients each year, which in turn fuels our growth and then adds to the base of business for the following year. Don't be misled by the flatness of this slide. This represents kind of the steadiness of our clients and actually the number of our clients has dramatically increased since 2016.

At the bottom of the slide. You see examples of loyal clients, nine transactions for Truck Hero, 11 for QTS, 13 for Avantor since the beginning of fiscal year 2016. In the PE world, there to the right we've completed 84 transactions for KKR, 71 for Leonard Green & Partners, 63 deals from Bain Capital since the beginning of 2016. These firms, as you all know are as sophisticated as they get in hiring investment banks and we are honored that they select Jefferies over and over.

Next slide, please. I want to talk just a few minutes about Jefferies Finance. This is our investment banking joint venture with mass mutual. We've had it in place since 2004. As Brian mentioned, we've completed over $275 billion of financing, that's across 1,250 transactions. In the latest 12 months, Jefferies arranged 167 deals, 96% – up from 96% to 74% increase. In connection with our recent strategic alliance with SMBC that Brian mentioned, we completed a recapitalization of Jefferies Finance and added $1 billion of liquidity. This increased capacity is going to give us the ability to do bigger deals and more deals without necessarily increasing the risk to Jefferies.

And on this next slide, you see the financial performance of JFIN for the latest 12 months; we recorded record revenue of $297 million off to the right there on the slide. Moving forward JFIN's strategy is to stay focused on core U.S. and European underwriting business and then further expand into large and mid-cap direct lending, which are significant opportunities for us.

Next slide. Our priorities are around sustaining our growth in the short and the long-term. First, we continue to lead with deep sector expertise and strong content delivery. This is going to differentiate us from our competitors. Our second priority is to capitalize on recently entered fee pools and strengthening our groups. Since the beginning of the fiscal year, we've hired 30 managing directors, 23 of whom are coverage MDs. We significantly expanded our coverage in the financial institution sector globally and at the same time bolstered our healthcare and industrial sectors.

Our third priority is to continue our select hiring of senior talent that will allow us to continue to expand our reach and capabilities. Although we have strong breadth and depth of senior talent we are always looking to expand both our reach and our product capabilities for our clients. A perfect example of this in action is our newly formed private advisory group, which gives us a new capability to take to our private equity clients.

Finally, our most valuable asset is our employee partners, in this competitive environment, retaining bankers and investing in their talent development is more important than ever and we intend to do that.

In closing, as we start the final quarter of our fiscal year, our momentum remains very strong. Our new business levels remain high, an indication of revenue that we will book in the coming fiscal year. As we cultivate our internal talent, bolster it with selective strategic senior hires and focus on several targeted initiatives. We're confident that despite competition from larger and smaller firms, we will continue on the significant momentum we have today.

Now, I'll turn it over to my partner Pete Forlenza, our Global Head of Equities.

<<Peter Forlenza, Global Head of Equities>>

Thanks, Chris, and good morning, everyone.

I'm going to take you through what I would describe as both the journey and the positioning of the global equity business here at Jefferies. Jefferies is now one of the 10 most significant institutional equity franchises in the industry. We were one of the few that has a truly global footprint across research, sales and trading. You're going to see as I walk through the next few pages, the expansion we have made over the last few years from both a product and a geographic perspective and the market share gains that have ensued from that.

We're excited about these market share gains and the global nature. And it's not just Europe where we began within a decade ago, but you're also going to see the results of the significant investments we made in the Asia-Pacific region in equities in 2019, when we hired more than 100 professionals throughout Asia including opening an equity office in Sydney, Australia to complement our existing investment banking team that was on the ground there. We also doubled down in the franchises that we had been building in Japan, in Hong Kong and in India. And you'll see momentum across all of those businesses, which leads us to an exceptional platform, servicing global institutions for our client base.

Let's go to Slide 2. As you've seen in some of the other slides that that Rich and Brian and Matt have shown, we're growing revenues while simultaneously gaining market share across all regions. We're doing this by expanding our product offering and getting more important through our existing clients. We've always had a strong core U.S. business, but you can see the investments that I've referenced that we've made in Europe and in Asia over the last few years that are driving significant market share gains and revenue growth. What I'm most excited about is that we see continued opportunities for share gains and expansion of product in all regions.

Thank you. Could we go to Slide 3? This is probably the most important slide that I'll go through. And that explains our strategy, which focuses on really three pillars, unique advisory, differentiated distribution, and leading-edge execution capabilities globally. What does all this really mean? Let's start with unique advisory. Brian referenced that now we have a top eight research platform judged by external surveys on a global basis. And in some regions, we're inside of that. What does that really mean? Well, the first part of it is, look what's unique. We are now covering more small and mid-cap stocks than anyone else globally. That is important to our investor client base. I can see the breadth of that coverage on the left side of this page.

If you go to the right, you'll see the significant growth in research content that we are publishing on a daily basis. We are quite simply touching our clients with more unique research than ever before and there's tremendous growth of that. We've also continued to invest in a market-leading macro and strategy product led by both David Zervos and Chris Wood to name a couple and who are highly impactful to the market. We've also – and Rich and Brian referenced this, we've recently been building out an ESG research team that is advising both our investor and issuer client base on what is an increasingly important topic across our industry.

Differentiated distribution, what does that mean? Well, for us, we believe it's having what we see as the largest sales force in the industry on a global basis. Why does that matter? While having the ability to have a larger sales force gives us the ability to just cover more accounts. We touch more institutional investors than others in the industry and that then leads us to have the ability to bring unique interest into our capital markets transactions, which is important to our issuer clients.

We also believe what we have is the most senior sales force in the industry, which gives us the ability to find the right investors for our capital markets products, our IPOs, our follow-ons and our convertibles, which in turn gives our issuer clients a much more diverse shareholder base. We also believe that we have inherent leverage in our product we have all of this great research, we have chosen to not just focus on the top 200 investors around the globe, although we do extremely well with them, but we distribute our product to a much more diverse investor base.

Cutting edge execution, this is something that Jefferies is invested in. You've heard me speak about over the years. We have a market leading electronic trading business that we have now exported globally. And you can see that reflected in our share gains in the bottom part of the page. So, you'll see in the Americas, we've had 72% growth at a time that the markets have grown by a little more than 55%. In Europe, we've grown 134% at a time the markets were up 4%. And in Asia, we've grown more than 500% at a time that Japan is up 9% and Hong Kong is up 200%. So, you can see it's this investment in technology that gives us the ability to transact very efficiently globally.

Can we go to the next page? So here on this slide, what you'll see is then on the left side, we have recurring revenues from a vintage of clients that would predate 2016, but what it doesn't show here is that those clients that we had are doing more business with us, we're gaining share. And very often that is clients that were historically very strong relationships with Jefferies in the United States are now the way I would phrase it, inviting us in to be a more important global partner for them.

But also, if you look at 2019 and onward where you'll see that we're able to generate revenues from new clients, I would argue this probably looks different than most or any of our peers in the industry, because as we were expanding through Europe and particularly in Asia, we were opening up new clients. So, this is a key to how we are gaining share. On the right side of the page, you'll see and Matt and Brian referenced this a bit, that we have a trend of really fee-based income that is commission-based on the equity side both from checks that we may be getting from MiFID, but more importantly from our execution capabilities.

Let's go ahead to the next page. I've been talking a bit about regional and product diversification just want to hone in and show you a little bit around this. So, you can see in 2011, roughly 80% of our revenues were coming from the Americas, really the U.S. and only 21% internationally, you can see that between 11% and 16%, we took that to 30% and a 60% - and 70% approximately between international and the U.S. And I was asked a question, I believe it was about five years ago. If I ever thought that Jefferies equities franchise would potentially grow that to 40% and you can see that we are now there. And I believe that is going to continue to grow again, as we continue to diversify from the regional and a product perspective.

On the product side, on the right side of the page, what I would highlight here is Jefferies began its journey 60 years ago on the foundation of high touch U.S. cash equity trading. And it's always going to be core to what we do. Importantly, though, we do much more than that for our client base. We've invested over the last decade into much more sophisticated solutions and the ability to provide those to our clients so that now high touch cash trading is really only about slightly more than 40% of what we do. And it's these sophisticated solutions we're going to continue to provide to our clients.

Let's go to Page 6. I'm only going to highlight a couple of things on this page around our market share and some of the recognition we've received from outside surveys. The first one I'm going to repeat from last year is that Greenwich Associates did an ad hoc survey coming out of the height of the COVID crisis, evaluating which broker provided the most value at the height of the COVID pandemic market crisis. And I'm proud to say that Jefferies came out on top, and I'm not just proud that we received that recognition. I think it's worth highlighting why we were viewed as the most - adding the most value to our client base during that point.

It's really around two things. Rich and Brian speak about it all the time it's our people. We have had a consistency and our staff - we have a senior staff and in times of stress clients go to who they trust the most. And it was also the investments that we had made in technology over the proceeding decade that enabled us to go remote in a very stable fashion and that was recognized by the clients. You'll see that now, right below that we're recognized as a top electronic trading provider in both the U.S. and in Europe and I've used this phrase before. We're now being invited into Asia by the largest institutional equity investors in the world.

On the right side of the page, you'll see our market share gains between 2016 and 2021. You'll see great momentum in the U.S. with still the opportunity to grow more or you'll see tremendous market share gains, particularly in the UK, but importantly, you'll see that across all of these markets and Asia in particular, if you run the same playbook that we have in the U.S. and in Europe, you can project market share games that we would see, we expect to see. I'd also like to highlight our convertible franchise, which is an investment that we’ve made over the last five, six years in the U.S., but also in 2018 when we made a significant investment in both Europe and Asia. And you can see that we are a market leader in those markets. In fact, in Asia, if we have folks that are out ill or on holiday, it actually affects the market, we're actually that important to the market. So, the message here is, we've done well, we're gaining share, while at the same time, expanding our products suite and you can see that we have the opportunity for continued market share gains across the globe.

Let's go ahead to the next page. So, with all of this, you'll see – you've seen why we're excited about how we are currently positioned, but also most importantly that we still see the opportunity for meaningful market share gains and continued expansion of impact to our clients from both a regional and a product perspective.

So, with that, I'm going to turn it over to my partner, Fred Orlan, to speak about fixed income.

<<Fred Orlan, Global Head of Fixed Income>>

Thanks, Pete.

So, moving over to the fixed income overview, here on Slide 51. The story of our current business began six years ago, when we got together at the Investor Day meeting and detailed how we were embarking on a journey to refocus our business and building long-term client relationships and being less capital dependent. And bringing the story to today, our execution of the strategy, as you'll see from our results has led to significantly higher revenues and produced better returns for all of our stakeholders.

Going forward, we're very excited and confident about our future and the durability of our franchise, given the success we're having building and enhancing our long-term client partnerships, our geographic expansion and the strength of our culture that reinforces our mission and differentiates us from our competition, which we'll talk a little bit more about.

So, looking at this page, you can see that we have all the ingredients necessary to provide our clients with comprehensive coverage that similar to the investment banking and equities businesses is built on differentiated insight and execution. And we lead every day with the quality of our people, our culture of teamwork, and the way we all work together within the individual groups that are on this page, but also across the entire fixed income division, as well as the rest of the firm.

For the next few slides, we'll review our results, the expansion of our European business, the growth of our client franchise, and finally, we'll go over some of our strategic priorities. So, turning to Slide 52, we're very pleased with our results this year, which not surprisingly are down a little less than about 19% from last year, as we expected, as you know, the fed induced liquidity has started to drain out. We're still up 60% from 2019. And these results over the last two years are strong evidence that the enhancements that we've made across our business and created a more durable franchise.

And if you look across the page, you can see that not only have our revenues move significantly higher, we've also been more consistent and more profitable as evidenced by the percentage of profitable trading days, which is now at 95%. And also, the amount of capital we're using, which is hardly increased at all over the past four years. And additionally, risk has moved up only marginally despite adding many more businesses to our lineup and is down significantly as a percentage of revenue. So, we didn't need to take more risks to drive our revenues, just to support the growth of our franchise.

And these statistics are a direct result of our commitment to our culture of discipline around all of our financial resources, especially keeping our balance sheet fresh, liquid, and turning over quickly with inventory that's relevant and applicable to drive into day-to-day flow with our clients. And this is exactly what we set out to do six years ago, and it provides a great foundation for continued profitable growth going forward.

So, turning to the next slide, Slide 53. I'd like to talk about how we're pushing our opportunity curve higher by driving improvements across our franchise every day. And what I mean by this is we can't control the market environment that we're in at any given time, but we can certainly make sure that for example it's the same environment as 2019 were to come around again in 2022, that we would deliver far superior results, because we operate at a much higher level.

So, one example of why we're so confident in this claim is the success we're having in building out our European fixed income platform and under the leadership of Fred Jallot in London, we've transformed our business into a scaled-up client flow business model across fixed income there. And as you can see from our results in 2020 and 2021, we've shifted this curve with Q3 LTM revenues running at two and a quarter times that of what we achieved in 2019 and earlier. And a followed a similar script in the way we built that our team in Europe with high quality talent bound together by a collaborative culture, with a strong emphasis on building our long-term client relationships. And it's also interesting to note that 35% of our European team has joined us since the beginning of the pandemic. And thus, we know we have a lot more to accomplish there as we further integrate all of our people there.

So just starting to Slide 54 and another reason we're so excited and confident in our potential to keep shifting our opportunity curve is the quantifiable progress we've made across our client franchise. So, you can see we've significantly expanded our market footprint over the past six years, which is driving the momentum across our business. So just as a footnote, all the data on this slide come from Greenwich Associates. And if you look at the right-hand side of the slide, there are a few metrics that I think really tell the story. We've substantially grown the number of clients we trade with across fixed income by 25%. So said another way, we have a 25% bigger client footprint than we did when we started this mission.

And then the U.S. credit markets, we've expanded our relationships with the core and most active clients by 75%, which has translated in a 300-basis point increase in market share with these most active and important clients. And this is very significant as these clients also provide the most important market intelligence, which leads to better management of our balance sheet.

Now these macro statistics are the results of improvements we've achieved across much of our franchise and you can really see the impact on the seven businesses that we've highlighted here in the middle, where we've dramatically increased our market share over the past six years, as you can see with the median increase being a multiple of four times.

Now, these businesses are 50% of our revenues. So obviously that gives us a lot of confidence in the future, but it also doesn't include our securitized markets businesses, because Greenwich didn't measure those for us. And Matt alluded to those such as CLO origination and trading and some of the other businesses in securitized markets. So, and also the improvements in our leverage credit trading business shown here such as par loans and high yield and the distressed business and also the complementary businesses in Europe are also consistent with the market share we've taken in our investment banking franchise specifically with the private equity sponsors, who are not only important investment banks and clients, but are also significant fixed income clients given the size of the growth that has occurred in their asset management divisions over the past few years. And we expect that to continue to grow. So finally, according to Greenwich, as you look at the bottom, we're now firmly a Top 10 overall fixed income franchise ex derivatives, despite not participating in some areas that we deem not to be optimal for us to compete in as of yet, but may be so in the future.

So, with this said, let's talk about our strategic focus going forward on Slide 55. And so, our future success like I said is grounded in the quality of our people and the distinctive culture, which we leverage every day to drive the momentum and the durability of our fixed income business. It's partnering with clients, which requires a team mindset and the sharing of relevant information, both market and client specific across all of our businesses to help identify opportunities, as well as manage risk holistically across fixed income.

It's also about delivering all the resources of the firm, which can be for example, banking advice or access to equity insights and execution to help our clients achieve their objectives. And when we do this well, our clients trust us with their most important trades and I call this driving quality share over simple market share, because these are usually higher margin situations and lead to repeat businesses – repeat business with those clients.

As we talked about earlier, we're aligning our businesses globally and leveraging the success of our U.S. business abroad, especially in Europe and while we've achieved quite a lot in Europe already, our opportunity is still much greater. Simply, just having more time to integrate our talent into the global team will be accretive and we're still seeing great opportunities to add new business lines.

And also, we're applying the same team focus strategy abroad with our international clients, many of which are global and therefore has a reinforcing impact on our U.S. business as well. And also, I would just say that this focus is fully consistent with our partners in equities and investment banking, as we've made significant strides in those businesses in Europe as you just heard from Chris and Pete. So, we're very excited about the progress we've made under Fred Jallot's leadership and the results which are benefiting our fixed income returns globally with more potential going forward.

And of course, we'll maintain our consistent discipline around risk-taking and the efficient utilization of our resources and the productivity of our balance sheet. And as I mentioned earlier, we focus on keeping the balance sheet fresh, liquid and turning over quickly with relevant inventory. And finally, supporting all of these priorities and underpinning the future success of our business is capitalizing on the significant investments that we made in technology, especially in our Madison platform that Brian mentioned as well as e-trading.

And for us, Madison helps us be more efficient in the way we connect with our clients. For example, utilizes AI to prioritize what and when we should be showing a certain client, a specific asset based on their previous tendencies. We’re improving our ability to make every client interaction more relevant and valuable, and therefore being more efficient with our clients’ time as well as our own people. In e-trading, we’re connecting to more and more of our clients electronically providing more liquidity and trading efficiency than ever before.

And we’re beginning to see the benefits of the development of algos and other data we collect through these interactions, which will be a source of progress going forward. So, with these priorities in mind, we’re very excited to continue along the successful and exciting journey to increase the durability of our fixed income business, and consistently shift our opportunity curve higher by always striving to find ways to support our clients and to provide the best possible returns for all of our stakeholders.

So, thanks very much for listening. And I’ll now pass the Zoom over to Nick and Sol in Asset Management.

<<Nick Daraviras, Co-President, Leucadia Asset Management>>

Thank you, Fred. I’m Nick Daraviras. I’m going to give you an overview, a history and an explanation of our business model and results. While my partner Sol Kumin in a few moments, we’ll give an update on our recent activities and our strategic priorities. Put simply we would like to build the partner of choice in alternative asset management both with institutional investors globally and with high quality pedigreed talented portfolio managers.

This manifests itself in a number of different ways, and in fact, our flexible business model is part of what allows us to partner with these different portfolio managers in the ways that are best suited to their stage of development or business model. In most instances, we provide seed capital, acceleration capital or some other form of strategic capital to the investors with whom we partner. Again, this can take a number of different forms structurally.

In some instances, the managers become employees of ours and they run divisions for us, which are wholly-owned and consolidated. In some instances, we start joint ventures and we jointly control these businesses. And in others, we provide a seed or acceleration capital in exchange for a GP stake or a revenue share in the business going forward.

All of this does lead to our financials having different components in them, which I'll walk you through in a moment, but it does allow us to be flexible and find partners who are seeking a partner like us, who can provide both capital, but also strategic reach and infrastructure and in many cases marketing.

So next slide, please. Here, I'll give you a brief history of our development. If you look back to 2017, we entered that period with a quant heavy portfolio of seven strategies, managing $9 billion of AUM. Some of these were legacy strategies that developed within our sales and trading operations. It was around this time that seeing the opportunity set to partner with quality managers and to grow within alternative asset management, that we made a more concerted effort to focus on this business and to support it. So, we could source attractive opportunities.

Some of this consisted of dedicated resources internally, some of this considered it – consisted of mining the reach of the Jefferies broadly defined so that we can find both investors and partners. Some of this was the decision to launch a dedicated marketing effort with the head of – the hiring of head of the global effort in 2017 and growing that effort to 22 people within marketing investor relations today. The dedicated marketing effort has led to another advantage in that not only can we use that effort to raise assets for our managers, but it's an attractive – competitive advantage that when sourcing new managers with the partner, because they can see the value we bring to them just beyond our capital.

I think what's important to note about the way in which we built this business is that we're not paying enterprise value for any of these entities where we're partnering with these businesses often by providing the investment capital, as well as infrastructure and operations and marketing support, if they need it. And all instances, they take the marketing support. But it's a bit of a different model than others. And it's allowed us to grow with many different types of managers.

Looking at the slide, one of the things that you'll note is the cadence we've developed. This is not by design, but it – we've in essence been building by adding a new manager roughly once per quarter. And then each year, we subtract one or two managers. The reasons for closing certain of these strategies varies, but it can be tied to performance or an inability to attract third-party capital. And in some instances, just a decision that the business model they were pursuing was not a viable.

Nevertheless, we continue to grow. And if you look at particularly the AUM growth, I'd note that it's tied more and the acceleration in that AUM growth, it's tied more to the maturation of strategies from prior years than it is to the addition in any given year. Typically, it takes a few years for our marketing and other efforts to kick in and such that, the AUM at newer managers becomes a significant piece of our overall base. Next slide, please.

So, this is our current portfolio. I certainly won't walk you through all of this. I would just highlight that it's a diverse offering. It covers multi-managers and multi-strat, equity long short, credit, quant, private capital opportunities. I think it's important that to have – with this diverse offering, we're able to have meaningful conversations with investors where we can be a solutions provider rather than simply someone coming with a singular product offering. And this has allowed us to develop relationships with our client base that we hope to continue to expand.

Moving onto next slide. This is where I'll describe our business model. There's really three components to the revenue. The easiest to understand probably is, we invest capital into the strategies that we support and we earn a return on that capital. We utilize SMAs where possible, we utilize some portfolio leverage to be as efficient with our capital as possible. And that is what you see in the line here shown as JFG investments. I'll note that the underlying equity within there is in the period that we're discussing here averages about $1 billion.

Second, we have wholly-owned divisions and those are the managers that are – where they are employees of ours. And we fully consolidate the returns of the manager. I don't mean of the investments in it, but the fees recognized by that manager for third-parties. In this chart here, it's the line shown as third-party investments reflects the AUM in those managers. Those managers tend to be some of our earlier stage seeded managers.

And third, we have our – it's actually a variety of different structures, the joint ventures, the revenue interests, GP stakes with affiliated managers. Those are the instances where we don't have a controlling interest in those firms. We're not consolidating the managers fully, but we're recognizing some portion of the revenue or the profits from those firms. And I think if you look at the chart on the left, you'll see that that's actually where we've seen our most significant growth over the last few years.

I'll mention also when you think about how we recognize our revenue, there is a bit of seasonality to it, because of the lumpiness of performance fees that are realized on a calendar basis by most managers. What this leads to for us is, at the calendar year end, when managers crystallize their gains and has performance fees, we realize our portion of that whether it be through the revenue share or through our profit interest and what is our fiscal first quarter. So, there is a bit of a lag to when we will recognize gain from any particular period.

The other component though that is worth noting that even when you think about the amount of AUM that we show as average for the LTM period, that also is a little bit misleading on a timing basis, because it includes the performance fees that we recognized in Q1 of our fiscal year. All of those related to the capital that was in place with our underlying managers in 2020. So, it actually is capturing the performance of an AUM base that is as we sit here today, now began 21 months ago. So, the gains that we've booked there from a performance perspective are probably closer – are driven closer to a base of $10 billion of AUM rather than the $20 billion that we have in third-party capital today.

If we look at those pieces now, you'll see that on our investments in our managers, I've referenced that that was supported by about $1 billion of equity capital. In the LTM period, we've made a little over $300 million. With our wholly-owned subsidiaries, who are managing about $1 billion in third-party capital, we made $15 million in fees. And when we look at our affiliated managers where we have rev shares and profit interests off of the AUM there in the LTM period we made $100 million in fees.

I think it's also key to note that when you think about that section, the revenue share and profit interests from third-parties that is very high margin revenue, because we are taking from either the top line or only recognizing our portion of the profit. So, there's a very little direct expense associated with that revenue.

And at this point, I will turn it over to Sol.

<<Sol Kumin, Co-President, Leucadia Asset Management>>

Great. Thanks, Nick. I'm going to walk you through just a couple things on this slide here. This really shows the stuff that we've done over the last year. And as you can see, we've been pretty active as Nick just touched on adding a bunch of new strategies and in some cases subtracting some where it was the right decision for us to make. I'm going to walk through and just highlight about five or six of these that I think will be just most relevant for you.

The first one is that first one on the sheet there, which is Hampton Road. This was a partnership that we got into in December of last year. A TMT manager, very well known, long short business, good use of capital for us and a manager we're excited about. He's just finished his first 12 months officially in business with some really good numbers. And he’s got some great momentum on the capital raising side. So, we’re very excited about this.

The next one there would be Monashee Capital, which is February 2021. This was a firm that we partnered with two years ago that had a core strategy in the equities business. They’ve basically filled up their capacity in that business and they’ve done a really nice job expanding their capacity by adding a convert business and an investment grade credit business. What we’re highlighting here is in February, they launched a crossover strategy, which has also been very successful raising capital as well. And they’ve been a great partner, they’ve done a really nice job. So, it’s a business we’re really looking forward to helping them build.

If we fast forward here to June of 2021, there’s a couple things that are worth noting. A firm called Point Bonita that we helped put in business with a really talented PM focuses in the credit space, doing some lending. We set out to raise $500 million of Founders’ fee, it was during COVID for our first-time fund. And our marketing team along with the PM did really a terrific job. Here we closed the $400 million pretty quickly – $500 million, sorry. And we continue to raise money here at even higher fees. So, we’re excited about what we’re building there.

And the next one, the same month was a long short business based in Hong Kong called SVI. Excellent track record over the last few years and we just recently launched that business as well. June and July, we have tried to find a new way to raise some capital in Europe on the UCITS side. Both Weiss and Solanas two businesses that we’re involved with both have launched UCITS, and we’re really going after a different type of investor than we have traditionally with our marketing group. And so far, they both have started well and we’re excited about that.

And lastly, just this past month we launched a quant business. We hadn’t been in the quant business for a few years now with a business called Manteio Capital. This is a really talented group that came out of Credit Suisse and we’re looking forward to continuing to build a business with these guys.

Go to the next slide, please. So, let's talk a little bit about our capital raising momentum. And look, it's been generally challenging to raise capital in a COVID environment, right? Investors want to sit down with you, look across the table from you especially with some first-time funds. And we've actually done a pretty good job, despite the environment that we've been in. Our groups raised over $2 billion so far this year that's coming primarily from Monashee Capital, Schonfeld, Weiss, and Point Bonita. We've got a really strong pipeline here for the next three, four months of the year and that should carry us into the first half of next year, especially as things are starting to open up and we're able to start travelling a little bit more and sitting across the table from people in person, which has mattered a lot with first time funds.

We have a few strategies that have started to really gain some market momentum. Two credit strategies in particular, 3|5|2 Capital and FourSixThree Capital. As well as the business I mentioned earlier, SVI, which is the long/short business in Asia, all three have had good years and have started to raise some money. We're excited about that.

The last part here would be Kathmandu and Riposte, two businesses we've been involved with for a little while now, also really good performance here over the last few years. And we're receiving very good interest from investors and expecting to raise some money here in the next few months and early into next year.

The last part of this page is just talking and Nick touched on this a little bit to our marketing and distribution effort. That team's now grown to 22 people on the team, obviously we have people based in Hong Kong, London, New York and they cover all over the U.S. We're really covering almost all the big investors around the world. It's an important part of our business. I think it's part of the value proposition for managers to partner with us. And obviously, adding dollars to all of our strategies is a big deal. And that team has really come a long way in the last few years and is doing a really nice job.

Last page, please. Great. So, I just wanted to touch on just what our basic strategic priorities are, and none of them should be surprising now. I mean number one for us is obviously focusing and continuing to grow our fee generating business on third-party assets. I mean it's how with what we focus on when we're trying to partner with people and build businesses. You can see here that our assets have – the underlying assets were up 55% over the last 12 months, which is great. And I think Nick touched on this a couple slides ago, we've done about $115 million of fee generating revenue and $100 million of that comes on just very low direct cost that are associated with that.

The second thing is just continuing to add quality strategies. We've got a good pipeline. Obviously, our seat that Jefferies help, we have a tremendous amount of things that we can leverage from this entire firm and platform, we communicate with all different business lines at the firm and it's a really big strategic advantage for us that we continue to take advantage of. And then the last part is just earning, obviously a good return on our capital, right? We want to start being able to recycle capital, which we're doing and that will continue to be a big focus for us going forward.

That's it. So, thank you very much for your time today. I'm going to return this now to Brian and Rich and we're going to open it up for Q&A. Thanks.

Q&A

<A – Brian P. Friedman>: Do we have questions?

<Q – Mike Sharp>: Yeah. If you have questions, please click in the upper right-hand corner of the screen "ask a question" to present questions. In addition, we have live questions that will come from our equity research analysts. We'll start by asking Mike Brown of KBW if he has questions.

<Q – Mike Brown>: All right. Great. Thanks for taking my questions. Rich, Brian team great to see everybody. Thanks for the day. Appreciate the time. So, I guess, across all of your businesses, which one or two within Jefferies Group have the most wind at their back today. So, if you think about advisor specifically, you've done $1.3 billion of revenue to date. So, a full year record with 4Q looks like it's shaping up well from what I can see in the public realm. And as we look to next year, you've been really active on the hiring front. The environment remains really conducive for M&A activity. If that continues to be the case, should we expect to see revenue growth in advisory next year?

<A – Brian P. Friedman>: The simple answer Mike is, yes. And similar to what we said about the last couple years and in the last several decades, there's both potential for market growth. If you look at the M&A market, the average M&A deal, the average deal probably has a six, seven-month gestation period. So, to the extent that middle of last year, middle of 2020 M&A origination slowed down, it accelerated into the end of 2020, and it's accelerated across the 2021 year. So right now, there is a backlog looking forward and it's at the highest levels it's ever been in the M&A world. So, there's every reason to think the overall market in M&A will continue to be strong. Then you have the Jefferies story and I'd go back to what we cited, which is we will enter next year with close to 20% more MDs in investment banking than we began with this year. So, our opportunity to take greater share in a growing market, we think is real.

<A – Richard B. Handler>: I would just add that. I agree with Brian's point about banking in general. In addition to the people that we've added in our existing people and the recent people who are getting up to speed and their high level of repeat business is the incumbencies that we have in respective organizations that are basically, it's business for us to lose as opposed to having to go in there and pound the table every day. And we're very adamant that we will pay attention to all these clients that we're not going to lose those relationships. But I don't want to take away from the fact that we've made major investments in fixed income and equities over the course of the last two years in particular.

Many of the people who've joined us haven't been in our offices quite honestly, and there's a lot of integration and a lot of upsides there, it's clearly more market dependent. But I'll go back to my original point where I started off. We have room for growth everywhere in our organization. I saw the slides, perhaps our convertible bond department is hitting against as a market leader, but I'd much rather be storming the castle then having to defend the castle. And we're kind of storming the castle across every one of our businesses at Jefferies. And it's a very good position to be in once you hit critical mass.

<Q – Mike Brown>: Thanks. I appreciate the thoughts there. I guess, as a follow-up to that, you're clearly hitting on all cylinders on hiring side and the head count growth is really been impressive. Probably the more impressive piece this year has just been the comp leverage you've been able to show. With the hiring activity that you expect, is it possible that you can continue to show comp leverage here? Or like how do we balance what you're expecting to do on the hiring side and how that could ultimately play out in the comp leverage or comp ratio, however, you think is the best way to think about it.

<A – Brian P. Friedman>: The way to think about it is, I mean, it's not a never-ending game and at some point, the compression has to decline. But there is just huge operating leverage. Our support infrastructure is highly scalable. And if you think about the nature of investment banking, it is relatively high-ticket business. It's not a huge number of tickets. The number of deals we do in a year is in the thousands. So, there isn't a need to scale our operating infrastructure remotely at the level that hopefully the business can scale.

On the trading side, again, there's a lot of efficiency from technology, et cetera. So, our core support function is highly scalable. And then within operating front office businesses, there is some efficiency, some productivity gains, some scaling opportunity.

So, the answer to your question is in 2022 if the direction of travel continues as it is, we have opportunity to get some further improvement. Again, I'm not going to tell you it's a never-ending compounding opportunity, but definitely into 2022, we don't see why we can't continue to improve on that.

<A – Richard B. Handler>: And I would just add to that. It's taken us a very long time to get to critical mass, and it was a quite a journey. And when you have critical mass and you stick to it, you do get operating leverage, and we have the ability to pay our people fairly and competitively and generate good ROE for our shareholders, now this is something that we haven't been able to say until the last couple of years. And I believe that we're at an operating level across the board where it's sustainable, and obviously there'll be market conditions that come and go. But having the position that we have today is a much – we're much different company today than we were a few years ago. And it took us a long time to get to where we were a few years ago.

<Q – Mike Brown>: I could just sneak in one more and, I'll let others ask their questions. When I look at Slide 30, it implies nearly $1.6 billion of excess liquidity. So, liquidity at the parent above your target is that the right way to – for us to be thinking about excess capital and the amount that's available for capital return. And then two, can you just provide us an update on how you really thinking about capital allocation and specifically capital return here?

<A – Brian P. Friedman>: Well, first remember that we've begun a tender offer for the $750 million of notes at the parent level that otherwise would mature in 2023. So potentially up to $750 of that excess will be used to retire debt. As I recall, I think that is give or take 6.5% debt. And as we shrink the merchant bank and as we look at the convergence of JG and JFG, that's the right thing to do and something we feel very comfortable about. Beyond that, there's no question that as we grow the core business, we'll need some additional capital although the earnings generation of the business may well take care of it. So, there will be, should be excess capital and we will continue to drive return of capital. Rich?

<A – Richard B. Handler>: I would just say the fact that we're tendering for those bonds is a big statement. It basically says that we are on our path to further simplify our company. It should be viewed as a very bondholder friendly statement. It should also be viewed as a position for us to as we monetize – return of capital to our shareholders and invest in Jefferies. And I'd mentioned at this – up in the start one of our key priorities is to do both of those things. So as owners and you can see this – as we've been scaling our company, we haven't been taking on excess amounts of risk or using excess amounts of capital, we are throwing of a lot of cash and we – our plans as well for a lot of cash given that there will be dislocation in the market, but over the intermediate long-term, our businesses are very cash generative and we believe we have upside in the merchant banks. So, there will be lots of opportunities, we believe, going forward to keep doing what we've done in the last few years, and we're committed to doing it.

<Q – Mike Brown>: Thank you, Rich. Thank you, Brian.

<Q – Mike Sharp>: Thanks Mike for the question.

<Q – Mike Sharp>: Thanks Mike for the question. I'd like to open the mic now to Chris Kotowski at Oppenheimer.

<Q – Chris Kotowski>: Good morning. Can you hear me?

<A – Richard B. Handler>: Yes. Hi, Chris. Before we speak, we have to give Chris a shout out. He has been on our story for long than any person besides Brian and myself. And yes, thank you for your patience, Chris. You deserve a medal for hanging in there with us.

<Q – Chris Kotowski>: Yes. Well, once I had an institutional salesperson, who told me that being early is just another way for saying you're wrong, but I'll take thing early. I guess, following you for a while, your growth seems to come from a different place every year. The great financial crisis was picking up some of the wounded good companies here and in the last couple years it's been Europe and then it was Asia. And just looking at like Page 34 with all your industries and you seem to be pretty globally covered now. Where is the white space as you see it? And does – continuing to grow the banking franchise, is that going to entail driving more and more into investment grade land, which historically you're more in the middle market non-investment grade?

<A – Brian P. Friedman>: The answer, Chris is, yes, yes and yes. The white space continues to be surprisingly almost everywhere. The example that I use is our healthcare investment banking business, which is our largest sector today in investment banking. And for example, in the last 12, 16 weeks, we've added two managing directors, one in the U.S., one in Europe. We are targeting several more hires. These are all effectively white space incremental opportunity hires in the industry where we have the highest revenue per sector, and we have the highest penetration. So as much as we'd like to suggest that Page 34 is comprehensive, and it is big, there's a lot more to go in sectors. Over the last couple years, we've shown there's a little more to go in products and there's absolutely more to go in geography.

If you look at our equity business in the last three years, we doubled down in Asia. We continued, as you saw in the numbers, to grow in Europe. We just hired four people in the equities business in Dubai, opening an office there. We just took our global financial institutions investment banking business from five managing directors. And this is something we wanted to do for a long-time. And we've gone from five to I believe now 13 this year. We created this year a private capital advisory business, where we have six dedicated managing directors.

Fred Orlan talked about what we've done in fixed income. Our fixed income in Europe particularly is far from its potential. So, when you actually look at the white space, there is a ton of white space. I mean, I find it fascinating that on the one hand we've achieved critical mass. We've gone to where we've gone. And in some ways, there's more open opportunities than we've ever seen. A lot of that has to do with our own momentum and strength, but a portion of it has to do with the fact that competitors, despite the strong markets, some of them are shrinking, some of them are changing their focus, whatever the case, it's given us more opportunity and we're going to keep going after it.

<A – Richard B. Handler>: I would just add to that, what's important and Chris you noted that it seems to come from different places at different times, it all comes back to having our house in order. And what that means is having a culture of our people, having a consistency of our plan, watching our risk real-time, being long-term in nature, and being incredibly opportunistic and being willing to pass. So, you have to have all those things on a consistent basis and that is amazing how much you wind up getting if you can keep all those things together which are not easy and we've had our missed steps historically, so we're not perfect. But as well as want to keep that direction in the whole platform and the team pulling in the same direction, we're going have opportunities to take advantage of people, who want to come to our company or groups or teams. And it's been accelerating, not decelerating and it's very exciting if you're sitting in our seats.

<Q – Chris Kotowski>: Okay. And another question I'd have is regarding Page 40 on JFIN and you look at it, there were three kinds of loss years 2008, 2016 and 2020, right. I mean, it's obvious its leveraged loans and whenever credit spreads widened out and they are stressed, they seem to – they take some hits. And I guess part of that is inevitable, but I'm wondering just as you go forward with credit spreads at an all-time tight, more likely to widen before they tighten again, how do you protect the bottom line of JFIN? Or is there a way to make it less cyclical than it has been historically?

<A – Richard B. Handler>: I could point out one thing there. This is the leveraged lending business. And if you're going to be a significant player in the leveraged lending business, you have to be there for your clients. There is just no way around that. So, the question is, how do you setup that business? How do you capitalize it? Is it long-term capital? Or is it short-term capital? Do you have high quality underwriting standards or do you not? Do you have the ability to whether the storms or not? And do you have enough diversification? Or you completely concentrate? And the fact of the matter is we've doing this now since 2004-05. As you've mentioned, we've been through a number of cycles, it's all but impossible not to limp through a downside of the cycle. But if you size it appropriately and you have the staying power to weather the cycle and you're confident in your underwriting standards and you partner with your clients and you're there day-in and day-out, you wind up building a world-class underwriting platform, which we have done.

And so, that is fundamental to our business. We have great partners and we share some of the risk and we share some of the upside and it's association with that risk and it's sized appropriately. And I will add that that right now the diversification in JFIN has never been better. We have high quality sponsors. We're cognizant as always that spreads are tight. There is not a great way to hedge this that's effective and that's really been our strategy. Brian, do you want to add that?

<A – Brian P. Friedman>: No, I would just keep in mind that those modest losses represented a couple of deals in each case that were in process where syndication took longer, and we had to sell at prices below where we might have expected. This isn't a case of a large balance sheet that is swinging in the wind. So, we have a lot of agility when we deal with issues. The three years you cite together represent about $100 million of after-tax income of which only 50% comes back to Jefferies. So, we're talking about an immaterial amount of money in the aggregate.

And if you look at 2021 and this is something we've disclosed previously, but in talking about – Chris talked about sort of the level of activity this year and the $190 million of nine month pre-tax that you see there, I believe that is after about $60 million in one-time cost that are associated with the recap. So, the earning power of JFIN has broken out meaningfully and further it gives us fuel should we ever have to go through a more difficult moment.

<A – Richard B. Handler>: I would just add, because Brian reminded me. Some of these hits were mark-to-market hits that we did not take because we have the staying power to – to keep the positions. And some of them – we did sell them at reduced prices, because we wanted to balance our overall health of the organization. So, it's a very hands-on approach in partnership with a really good team, in partnership with Mass Mutual, soon to be SMBC, it's a great business for us and it's been – it has taken us a decade and half to get it here, but it's a very enviable position to be in.

<Q – Chris Kotowski>: I have a couple more. I should go or should I let other people go?

<A – Richard B. Handler >: You go, Chris. What have you got?

<Q – Chris Kotowski>: Okay. One is just on Leucadia Asset Management and the like – and in recent months and quarters, we've seen a bunch of companies in the public eye like Dial and Petershill, other companies that invest in asset managers, doing some similar things to what you do, but in a fund vehicle. And is it – I guess, what do you see as your competitive advantages attracting the people to your platform network? And is it the best way to do it on your own balance sheet or would it be better done in a fund vehicle itself as well?

<A – Brian P. Friedman>: Two different questions there from a – how are we different from them? We are partnering with management teams earlier in their successes, although generally proven managers and they're partnering with us, we believe in part to get our resources including as Sol was detailing our extensive marketing and sales resources. So, we have a meaningful support platform to help them grow their businesses, which is different than the business of buying stakes in already proven business as it's kind of the before the fact and the after the fact, we are before the fact and we're not paying a premium for an existing business.

The second thing I would point out is that, how you get your capital is a matter of optimization. What I – where I thought you might have gone is that if you take the valuations that are being accorded to those business and applied it over time to what we're doing at LAM, it will get very interesting, because ultimately what we own in the future over an extended period of time does look a lot like what they own. We just got there in a different way. So, the potential value that's inherit and what we're doing is at LAM to some degree is proven out by what these other models are doing now in the public markets.

<A – Richard B. Handler>: I would just add that in many cases we have long-term histories with the managers that are coming and meet with us. We have thousands of people at Jefferies, who have covered them, and other firms, who have known them throughout their past lives. And so, there is a high degree of trust. There is a high degree of value add by knowing that you are a strategic partner of our full investment bank. Clearly, we have the capability to help them raise capital and the brand association. And it's a very friendly start for people, who feel like they need a strategic lift and we're also good long-term partners with people.

I would also add that the difference between us and some of the other funds you were talking about, you think about we're really getting in there – as Brian said, we're getting there a wholesale early adding value versus paying a fair value on a retail basis on a mid-teens ROE where you get, have limited shareholders who are your LPs. It's a very different business model, theirs is a great model. I think ours is very exciting and more conducive to what we do, because we're actually adding value to them right from the start.

<A – Brian P. Friedman>: And our goal is to be partners and own businesses, right. We’re not looking to make investments and then capitalize. We’re looking to own businesses that grow and become ever more valuable.

<Q – Chris Kotowski>: Okay. And then last for me was any additional color or comments on Linkem and HomeFed. And just the questions are, Linkem is one of the few remaining legacy Leucadia business that you still seem to be putting money into. And I guess, how long do you expect that to go on? And then on HomeFed, housing market is on fire. San Diego is a delightful place to be and lots seem to go for hundreds of thousands of dollars, home lots seem to go for hundreds of thousands of dollars there. And just the revenues we've seen out of HomeFed just don't seem to relate to that. And when do we see that, I guess those…

<A – Brian P. Friedman>: The answer is, it's happening now at Otay for HomeFed. You have to be realistic that even in a market with a huge appetite the absorption rate is not endless. So, we're putting on the market close to 1,000 lots a year, you can put 3,000 on the market in terms of the ability of the market to buy those lots and absorb them. We're working with a range of homebuilders, so we're trying to hit a couple of different price points and a couple of different approaches to the market. So, we're trying to maximize the single family. I would say the interesting development is the multi-family where we are acting as the developer. So, we're building multi-family from the ground up. We're just really getting going in that business. That could be a meaningful business for us.

We're going to syndicate some of that and manage third-party capital, so one of the things we've said is over time some portion of HomeFed could well be part of our asset management strategy and that is beginning to develop. We had built a self-storage unit facility. And we had thought about that in a similar vein, but then we got an offer that we found incredibly attractive. So, I think, you saw that, I'm losing track of time, but I think that was booked in the second quarter. They actually have begun to see some pops from Otay, but it's early, but it's not far off. It's coming now in this next year or two. There will be – particularly the multi-family will start to ramp-up in terms of the scale of it and you'll start to see us transact on it with syndications et cetera. So, I think, you are going to see more Otay bleed into us.

<Q – Chris Kotowski>: and Linkem?

<A – Brian P. Friedman>: Yes, Linkem is…

<Q – Chris Kotowski>: …period of investment.

<A – Brian P. Friedman>: Yes, Linkem, the period of investment isn't over, but a big piece of it was getting through the 5G implementation. If the ultimate question is when might we realize, the answer is we're closer. We're reluctant to put a date on it, but we're getting a lot closer.

<Q – Chris Kotowski >: Okay. Fair enough.

<A – Richard B. Handler>: I don't think you should read any of our – our knowledge or intimate detail on any of these companies as meaning we're not looking to optimize the right way. We know the assets. We know them incredibly well. We're hands on. There's a lot of value there. No one wants to do it faster than we do, but we'll do it prudently and it's our money, so we're going to do it the right way.

<Q – Chris Kotowski>: Okay. That's it for me. Thank you.

<A – Richard B. Handler>: Thanks Chris. And Chris, if you want to buy a place in San Diego, call us. It sounds like you are excited about it.

<Q – Mike Sharp>: Thanks, Chris. Let's turn it over now to James Yaro from Goldman Sachs.

<Q – James Yaro>: Hi, Rich and Brian. Can you hear me?

<A – Richard B. Handler>: Sure.

<A – Brian P. Friedman>: Yes, we can.

<Q – James Yaro>: Okay, great. Thanks for taking my questions. So, I'd say it's clear that the SMBC partnership is a significant growth avenue for you. I just wanted to drill down a little bit into the mechanics of the partnership. So, when you talk about deals in which you leverage SMBC's balance sheet and your expertise, could you just clarify exactly how such deals would work? And how this would impact your balance sheet, if at all?

<A – Brian P. Friedman>: A couple of examples, one is in the leveraged finance world, Jefferies Group, the investment banking side is originating leveraged loans. Those loans go to Jefferies Finance. At Jefferies Finance, we have limitations on how much aggregate we will have at risk at any one-time, how much commitments we'll have outstanding. We have single transaction limits. So, it's not unusual for us to originate an opportunity that is bigger than the capacity or the appetite of Jefferies Finance. Historically, we would look to third-parties to potentially take on portions of that risk.

Now the first call will be to SMBC and SMBC has an interest in expanding its participation in this market. So, essentially, we have the opportunity to see SMBC come in as a preferred partner in our leveraged finance flow. Our doing larger deals, first of all, brings revenue to the Jefferies Group level, secondly, it further satisfies and strengthens our client relationships. It's more often they are not associated with M&A activity that we are otherwise engaged in. So, it's really part of a holistic and virtuous relationship.

So, the ability to do more deals, larger deals is what SMBC brings to the leveraged finance. On the investment grade side, SMBC by the nature of its business has a meaningful investment grade revolver and term loan portfolio, where they've historically led to good quality companies that are both Japanese companies operating in other parts of the world, as well as domestic companies, in some cases with businesses back to Japan and other cases simply with good domestic U.S. and European businesses. As you may be aware, a number of the commercial banks have been able to benefit by having revolver credit out to companies as an entrée to value-added services. We will be the provider of those value-added services over time.

We're starting, as I said, with the healthcare industry and with the healthcare industry we're going to take our expertise initial actually in healthcare services, call jointly with SMBC on some of their key clients and see if the warmth that is created by their relationship can carry over to additional business. So, it gives us an opportunity to do more large cap business. It coincides with other efforts we have to do more larger cap M&A business as we have the depth of expertise and our brand strengthens, we think that's one of our avenues to growth. Going back to the question before about white spaces, one of our white spaces is large cap and public M&A activity.

<Q – James Yaro>: That's super helpful. Another one that I received a lot from investors is just how to think about normalization in investment banking and the trading businesses next year. And I appreciate the guidance on advisory growth for 2022. And you've talked about trading being back in more of a normal environment. I was just hoping you might be able to add additional color on how trading is performing relative to the summer sort slowdown period. And I think more importantly, what you would term as sort of "normalized revenue" in the underwriting business?

<A – Brian P. Friedman>: If you go back to the slides that Matt Larson was using on Page 25, I hope everyone heard what he's said, which is this is the quarterly average for the last seven quarters, but excluding the three best quarters. So, we took out the second quarter and third quarter of 2020, and we took out the first quarter of 2021, and so we think we're giving you very much in the range of normal is what these bars are. So, there's a good argument that the normalization is there, but for three quarters and just take them out and look at the rest.

Furthermore, as you just said, there is a sense that the summer was slower maybe just traditional summer, if nothing else, maybe exhaustion from the last 18 months and the fourth quarter is more constructive. I don't want to say anything more than that. So, when people keep asking about out normalization, the answer inside the Jefferies is we're kind of past, we think that normalization. It doesn't mean there aren't forces at work, but we're not sure that they are the forces of coming out of COVID or coming out of the period of liquidity driving the market or coming out the period where SPACs were at the boil, we're past all of that.

<A – Richard B. Handler>: And I would just add now we're focused on growth. So, we're focused on who are we hiring? How do the people that we did hire up to speed? How do we fill in the white spaces that we still have? How do we integrate the whole thing? And how do we build upon this? We're not sitting here and thinking how do we hold onto what we did before. I mean, we understand that there were a couple of quarters that were extraneously wonderful from a financial services position as opposed to horrible for humanity position, but we're back to regular business. The only thing that's really not normal for us right now is we're still maybe a third of us back in the office versus all of us. So, it's not as – we're focused on how do we build upon 2021 and 2022.

<Q – James Yaro>: Thanks. That's really helpful. And then just one last one for me, if you sort of take a step back, now that we're back to more of a normal business environment, what level of return do you think your business could potentially generate sustainably, especially as you wind the merchant bank?

<A – Brian P. Friedman>: Well, as you wind down the merchant bank and then you have to make some guesstimate or assumptions about what happens to excess capital, but start with the return at Jefferies Group, it's been diluted by the excess cash as well as the merchant banking, which unfortunately has value, there's incremental value being created, but it's not being recognized on a periodic basis. So, we're just going to have for the most part gains, one-time gains that'll generate cash. The expectation, I think, that people can reasonably have is that we can sustain a very attractive return through the cycle.

We're showing that at parts of the cycle, you're going to have exceptional returns. I wouldn't necessarily perpetuate what we're generating now, but we're showing that with the critical mass breakthrough that we've gotten through in this last year, the highs are going to be higher and the lows are going to be higher than they were in the past. And we think that's real. Again, we're not going to get down to a narrow number prediction, but we do feel much better about it.

<A – Richard B. Handler>: We've never given earnings guidance. It's never worked in our industry. In our opinion, there's too many cross currents. But our statement that our merchant bank is no longer a drag on the overall platform for us to achieve a very reasonable and acceptable return for our shareholders, while we return additional capital to share that that's big statement for us. It's probably as bold as we'll make.

<Q – James Yaro>: Okay. Thanks a lot.

<Q – Mike Sharp>: Thanks, James. Next question comes from our participants, a gentleman named Rick Newell; is asking, is Jefferies using restricted shares for compensation. And if so, how dilutive is that practice taking into equation the amount of shares being purchased annually by the company?

<A – Brian P. Friedman>: The answer to that is the dilution over the last six, seven years probably averaged less than two million shares a year in RSUs being issued. And then we had a modest amount of stock options issued in the last year. So, the dilutive effect itself and recognize that the cost of it goes through our P&L, it's part of our ordinary compensation. So, it's effectively paid for in the operations. The thing to recognize is that offsetting a little bit of our buyback was the fact that we issued 10 million shares when we merged in the minority interest in HomeFed.

In addition, we have about four million shares underlying the preferred stock, that's been outstanding for a long time. It became dilutive and – but then also recognize that when you see the number for total shares outstanding that's in the deck, that's not the same number as is used for calculating fully diluted earnings, because for example, the 4 million shares that underly the preferred also contribute when they become dilutive. Similarly, options are in that number at their gross number issued when in fact there's a substantial exercise price. So, it therefore nets down to a much smaller number. So, it's, we think very minor dilution on an annual basis, but it's in the eye of the beholder.

<A – Richard B. Handler>: I think it is minor and I think the comment from Rick was when, who used to work at Jefferies, in the 2000s there was a much higher percentage of compensation in the form of restricted shares and that's no longer the case.

<Q – Mike Sharp>: Okay. Next question comes from Ben Knoll. In this last annual shareholder...

<A – Brian P. Friedman>: Sorry Mike you faded out.

<A – Richard B. Handler>: Mike, we lost you there.

<Q – Mike Sharp>: In the last annual shareholders' letter, Jamie Dimon named longer term banking industry challenges, some of which are relevant to Jefferies, in an industry that's grown just 4% annually through the last decade's full market, what do you see as primary industry challenges in the banking segments you operate in and how are you addressing those challenges? And is investment banking a weaker industry going forward?

<A – Richard B. Handler>: I mean, I would say our challenges for the most part are ourselves. Are we going to fall into the slippery slope of not valuing our people? Are we going to fall into the slippery slope of not retaining and attracting the best people? Are we going to get arrogant and start putting on excessive amounts of risk? Are we going to diversify into businesses we don't understand? Are we going to become cavalier about risk in our balance sheet? Are we going to neglect our clients? Quite honestly, I believe if we – the answer is all those is no, which I firmly know is not dependent upon myself or Brian, but it's ingrained in our organization. I think Jefferies is in a very good position.

There's clearly technological changes, we'll deal with them. There's regulatory changes, we've dealt with those. There's geopolitical risk that everybody has, all the things that occur in the world are going to affect financial services industry, but by and large investment banking, and giving advice and being the preferred advisor to great companies and helping people invest in quality companies and quality securities, I think, that could be around for a long time. So, I'm pretty optimistic about our industry, and I think even the industry is growing a small amount. I think we're disproportionately getting our market share and I feel pretty strongly about us being in a very good position.

<Q – Mike Sharp>: Okay. Next question comes, Todd Flaska. What happened to the plans to make HomeFed an investment vehicle in Leucadia Asset Management?

<A – Brian P. Friedman>: I kind of touched on that before, and like many things it takes a little longer than you wish, but we're heading in that direction. And we think we may well get there in the next year or two. So that plan hasn't gone away, it's just always takes a little longer.

<Q – Mike Sharp>: Couple of questions from Nizami Shirinov at RBC. Do you expect revenue growth you achieved during the pandemic to continue? And if not, what division do you think has better year-on-year growth in the future over others?

<A – Richard B. Handler>: I mean, you kind of answered that Brian already.

<A – Brian P. Friedman>: Yes. And I was just going to add one thought to it, which is, Rich cited the risks we have internally that we have to work on. And he also cited, the macro crazy issues that exist in the world and they are pretty epic. All that being said by historical cycles, the economy would seem to be in the beginning of its recovery, or maybe a little past the beginning, but far from the middle or the end, generally that bodes well for our businesses. In the last year, you've had an awakening of the equity capital markets business, the IPO market to a level, we haven't seen arguably in 20 years. So cyclically that's very favorable.

I've been in the M&A market for a good couple of decades as everyone can measure. The M&A market has kind of grown forever. It goes through brief periods of quiet but it tends to rebound and I thought the M&A market was crazy busy 35 years ago and it's multiples of that today, right. The M&A market has developed because we're not in a high growth world, we're in an overall low growth world and companies that want to win and want to drive strategy, have to bolt-on, have to add on, you can see it in the way we grow we just tend to with hiring rather than acquisitions, but the forces favoring our industry are pretty meaningful, are favoring it positively.

<Q - Mike Sharp>: Okay. Another question from Mr. Shirinov, when the Fed stops quantitative easing and yields start to grow up in the future, how will that impact Jefferies' businesses?

<A - Richard B. Handler>: I mean, look, I've been through lots of rising interest rate environments. It's going to cause a dislocation. It depends, if it happens gradually in a managed taper or if it happens immediately in a shock, my guess is the political forces will have this and they manage basis and we'll have to navigate as we've done in past crises, it's going to create challenges and it's going to create opportunities both on the fixed income, equity and banking side. And we'll have to be nimble, we'll have to have our risk, close to home and we'll have to be able to provide liquidity for our clients and serve our banking clients. And it's just another, one of the things you deal with when you are in the financial services.

<Q - Mike Sharp>: Okay. Question from Jason Aldridge, are you seeing a long-term fundamental shift in M&A and capital markets to the ever-increasing presence of private equity and venture capital?

<A - Richard B. Handler>: I mean, look, I think one of the reasons we are in such an enviable spot right now is our relationships with sponsors and private capital and the amount of assets that have gone to those investors and the dynamics of them buying companies, optimizing value, emerging, raising capital, there is a lot of alpha generation that the world allocators have decided that private capital is very useful to work. And we're pretty much a lynchpin intermediary in helping them do so. So, I think it's a great position for us to be in both on a sales and trading side and on the banking side.

<Q - Mike Sharp>: A question from Adrin Hope, a short question: what might go wrong?

<A - Brian P. Friedman>: That's something we think about a lot, right. I mean, I worry way, way more about what we don't know than, what we do know. Okay, I also worry much more about what we can control than about what we can't control. So, look we live in a world, where loss uncertain, loss is fragile. We focus on, what we can effect, we focus on what we can see? We constantly look for, what's behind the corner that we're not seeing. And Adrin is another one of our former significant employees we miss him, he is a wonderful man and Adrian lived it with us.

<A – Rich Handler>: I would just add everything can go wrong. Okay. And we worry about it every single day. And I could give – the rest this conference call, I can give the list of things, but I don't want to bum everybody out. I think everyone should realize that we're cognizant of our ability to make mistakes, we're cognizant of our ability to guess wrong. That's why we have a great team around us. That's why we don't have a bunch of, yes people around us. We want transparency. We want sense of urgency. We want all eyes and ears open to awareness, that's why culture is so important. So, we don't have anyone doing something stupid within our organization. We worry about it all.

<Q – Mike Sharp>: Question from Christopher Reed at CUNA Mutual Group. Many of the areas in which you have built significant trading market share are less liquid and can be more volatile. How do you think about risk management involving trading inventories? Are you focused more on crossing trades or you position limits, help you limit the risk exposure? And what is the average ticket size in emerging markets credit?

<A – Brian P. Friedman >: Well, Fred covered a fair amount of this, when he indicated that, we are focused on the liquidity of even our – illiquids that we are focused on position size, we control for each of these elements. The tickets in a businesses like emerging markets are not generally large tickets and the positions that we will hold from time to time tend not to be meaningfully concentrated in any way. If you use our convert business or our EM business as examples, well, on the one hand, they tend to be less liquid, by being leaders in those businesses we have great advantages. We are in proportionally more of the flow. We have more depth of relationship. We have more ability to offset trades with other trades that we're taking. So, in a way, the fact that we are more scaled than some of those businesses is a competitive advantage and it's a risk management advantage.

<A – Richard B. Handler>: And I would say in aggregate our level three assets, our risk metrics are aging. The things that we look at on a daily and weekly basis have not materially changed from a risk perspective since the mid-2000 and teens.

<Q – Mike Sharp>: Okay. A question from David Sisman, how important were SPACs through results over the last 12 months and what is your view on sustainability of the SPAC market over the next few years?

<A – Richard B. Handler>: So, we have a very good franchise in SPACs, we did a lot of transactions, a lot of quality transactions with great sponsors and great investors. If you don't do a SPAC, it's not like SPACs just arrived, and it's a whole new revenue source that we didn’t have otherwise. If a company is going to do a SPAC and there's no SPACs, they might do a dividend recap, they might do an M&A transaction, they might do an equity transaction. There's a bunch of different tools that are being used in the capital markets and SPACs are one of them. So, if SPACs disappeared. And by the way, the third quarter we just finished SPACs were all but dormant during that quarter. And we had a record quarter for that period.

Although there was legacy gains that we had from prior period, it's not going to be the driver of whether our investment bank is successful or not. It's, I believe it got overheated. I believe people who shouldn't have done SPACs did SPACs, with projections that were probably too unrealistic and overly optimistic. And as Wall Street generally does, it made too much of a good thing until it’s a bad thing, that will correct. I think the regulators will figure out a way to make it a more responsible product and it will be another option for companies to do as they try to manage their capital structures and either way, it's not going to have material impact on our overall growth in investment banking.

<Q – Mike Sharp>: Okay, a question from Tim Piechowski at Alpine Capital Research. Can you speak to the fair value of Vitesse given the recent run up in oil and how do you believe JEF will monetize its value over time?

<A – Richard B. Handler>: It’s worth more.

<A – Brian P. Friedman >: Yeah, the answer is clearly that is worth more, I'll note that the oil – what drives the value of Vitesse is not the narrow, what is oil selling for today, the question is, what are oil futures in 2022, 2023, 2024 selling for, that's been a little stickier in terms of the move up. Although there's been a move up, so for example 2022 I haven't looked at it in two days, but it's averaging close to $70 maybe slightly over now. So, the answer is it's coming our way. We need the higher prices to sustain for another period of time in order for it to filter into some of the out years, which will really will in fact, help raise the value of Vitesse. It has raised the public market, valuations of oil and gas. It's just beginning to filter into the private market valuation. So, the answer is a little bit of patience, but it's coming our way.

<A – Richard B. Handler>: I think the conclusion is, it was smart for us, not to pre-maturely sell that asset.

<Q – Mike Sharp>: A series of related questions from John Greene relating to the rationale behind the recent tender offer. The exit cap rate to buy back to bonds is approximately 60 basis points, which equals about a total breakeven yield of just 1% of the maturity date of the July 31, 2023 maturity. JEF is trading below book value. If you think JEF will be worth 1% more than today in two years, why did you decide to buy back the $750 million in debt instead of spending the money to buy more JEF shares? And do you expect a ratings upgrade to an A after the buyback, did that figure into your reason for the buyback?

<A – Richard B. Handler>: Okay. Let me address this one. First off, we're trading at 1.3 times tangible book. That's what we look at which by the way, we think is yes, a very attractive price for our stock given what's going on in our company. The tender was done, to shrink our float in the parent, because we're going to work on our strategic opportunity to further simplify our company. We felt, it was an appropriate price for our bondholders and given the opportunity to get some liquidity, earlier than they might otherwise have. If they don't want to, they don't have to. And none of this had to deal with whether we buy shares or not. The share buyback has to do with our relationship with the rating agencies, with our RAC ratio in the case of S&P which we hope to have some relief on and we're going to make that determination based upon market opportunities. So, it was the right thing for our bondholders. It does not affect our ability to buy back shares. I'd love for have the rating agencies to rate us A because of it, but I'm not going to hold my breath waiting for it.

<A – Brian P. Friedman>: Yeah. And we can't spend that money pending maturity, as maturity is only a year and half out, we have to start holding those funds anyway. So, sending them back early is not a change in our long-term liquidity profile.

<Q – Mike Sharp>: We have another question from Ben Knoll, congratulations on the success, recruiting the MDs. Now in the face of industry challenges, recruiting and retaining juniors' bankers, particularly women, will you please speak to the changes you're making to your company's culture, if any, to improve your competitiveness in these challenging times?

<A – Richard B. Handler>: Okay. That is a great question and a very valid question. And we've been working very hard, particularly with women, but across the board with all groups of diversity, trying to get this company called Jefferies to be their firm of choice. We have made remarkable progress at the most junior level with our analyst recruiting. We've made very good progress at our most senior level at the board of directors. And we're working, real time with passion and vigor to rectify the problems throughout the middle of the organization. And that means having education, training, mentoring, quality of life, our diversity inclusion groups has been a big part of why we've been so successful throughout COVID; it's a very big part of our success as an organization. And if we cannot get the diversity inclusion question right in our company, we'll not anywhere be close to going to achieve our goals that we believe in. Brian, you want to add anything?

<A – Brian P. Friedman>: The only thing I would add is this issue has gotten a lot of focus, it needs to be recognized that we had a meaningful uptick in industry activity in the middle of the hundred-year plague. And so, it's been a little difficult to give our young people the absolute, best experience we want to give them it's getting better every day. And this is something that with focus, the broader industry, I think, will do a better job, but we at Jefferies for sure will do a much better job.

<Q – Mike Sharp>: You have a question from Biswajoy Biswas from PwC India. How and by what time are you planning to wind up the merchant banking business? And how would winding up affect the AUM and the company revenue since it contributes about 15% annually to – I’m sorry, to quarterly revenue?

<A – Brian P. Friedman >: I'm pausing for a moment because I don't think it would be contributing 15%. I would say that on a trailing 12-month basis the merchant bank was probably barely 10% at most of our consolidated revenue and that was inflated by the fact that Idaho Timber was realizing exceptionally high prices for its lumber. So as Idaho Timber’s pricing, the market for its products normalizes that revenue. So, I don't think it's relevant on a revenue basis. But trying to answer the question, as we mentioned earlier, there are two or three key significant businesses, really, Linkem and Vitesse oil and gas, where that's, where the decisions are going to be most significant.

Most of the other business will fold into Jefferies Group or otherwise find their natural homes fairly readily. So, something we haven’t maybe said clearly is that prior to now for a couple years, selling beef was what everybody asked us about. And we found the right time we were patient and we got an exceptional value, similarly we're going to achieve, we hope reasonable values again, but the movement of the merchant bank from being a separate line item and a separate focus can actually happen more readily than the list would suggest, if we have the direction on one or two of the key assets, then the direction on the entire complex will come very clear, very quickly.

<Q – Mike Sharp>: Thank you gentlemen. There are no further questions.

<<Richard B. Handler, Chief Executive Officer>>

I'll just conclude. As I said before, we incredibly appreciative of our shareholders who have been patient with us and who allowed us to execute the strategy, we are appreciative of our bondholders, who have given us the capital to help us build our company. And we're appreciative of our clients, who have been incredibly loyal. And I'll say most important for this phone call. I want to thank all of our employees. I know a number of you are listening and you are shareholders, and you've done an amazing job through a very tough period of time and both Brian, I, the rest of the team, we're all in your debt. So, thank you very much. Have a good day everybody.

<<Brian P. Friedman>>

Thank you.