JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
Third Quarter Trends and Year-End Projections 11/8/18

After the third quarter, Johnson Associates projects modest increases in incentive compensation across financial services. Incentive compensation for asset management is expected to be up moderately. Major investment & commercial banking firms continued strong performance in equities trading and underwriting. Although some firms increased headcount, year-end layoffs anticipated due to overstaffing and technology efficiencies. Most layoffs will occur in operations and support functions. Tariffs, interest rates, and market volatility are key 2018 incentive factors.

Traditional Asset Management:

Markets and flows stable but wavering

- Incentives trending upward but heading into 2019 with caution
- Outflows in equities reflect investor sentiment toward markets and current environment
- Hiring uptick in strategic growth areas; however, layoffs anticipated
- Technology impact across business: cost/efficiency, digital experience, big data

Alternatives:

AUM rises as performance remains strong

- Despite investor outflows, hedge fund performance and diversification needs drove total industry capital to a net increase and record high
- Private equity incentives up on healthy results and strong fundraising; AUM continues to climb
- Private equity deal valuations in North America at record high levels

Investment and Commercial Banking:

Banks stay on upward path

- Although both positive, equity trading outpaced fixed income trading
- Healthiest gains for investment banking in equity underwriting with strong IPO market
- Banks with commercial presence continue to shed headcount, close branches, and focus on technology efficiencies and cost cutting
- Wealth and investment management remain healthy but with pressure on fees, cost, and business models; incentives continue upward trend
- Hiring and retaining high-end technology talent has become imperative for banks; Tech firms direct competitors for talent

19 West 44th Street, Suite 511, New York, New York 10036
(212) 221-7400 • Fax (212) 221-3191

Projected 2018 Incentive Funding

- *Headcount-adjusted basis*

Traditional Asset Management & Alternatives

Business/Area	% Change from 2017
Asset Management **(Independent and Captive)** *Flows wavering, smaller firms experiencing outflows. Market appreciation has stabilized AUM; market volatility leading to investor uncertainty*	**5%**
Hedge Funds **(Independent and Captive)** *Inflows continue as investors seek yield during volatile market. Performance above general market*	**5%**
Private Equity *Strong performance and inflows drive AUM growth, incentives trending upward*	**5% to 10%***
High Net Worth *Stable assets, mostly in line with asset management incentives*	**0% to 5%**

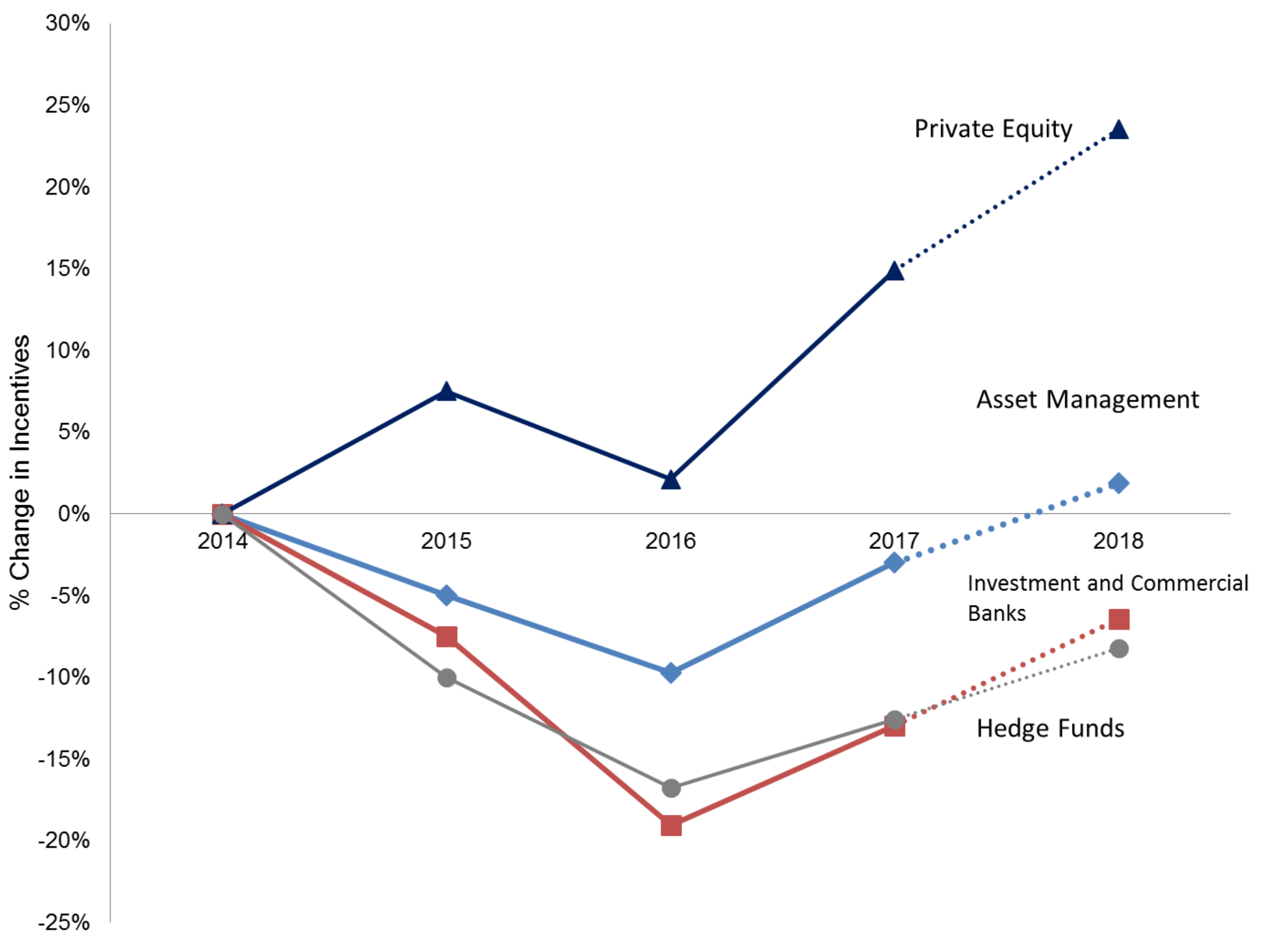
*Applies to incentive and equity, excluding carry

Investment & Commercial Banking

Business/Area		% Change from 2017
Firm Management/Staff Positions *Generally moves in line with entire firm but strong performers may exceed bounds. Technology initiatives driving decline in headcount*		**5% to 10%**
Investment Banking *Significantly better results in Equity underwriting versus Debt underwriting; advisory flat to down slightly*	**Advisory** **Underwriting**	**0% to -5%** **5% to 10%**
Sales & Trading *Activity increase and market volatility jump equity trading results*	**Equities** **Fixed Income**	**15% to 20%** **0% to 5%**
Retail & Commercial Banking *Commercial lending aided by rising rates but deposits largely flat*		**0% to 5%**

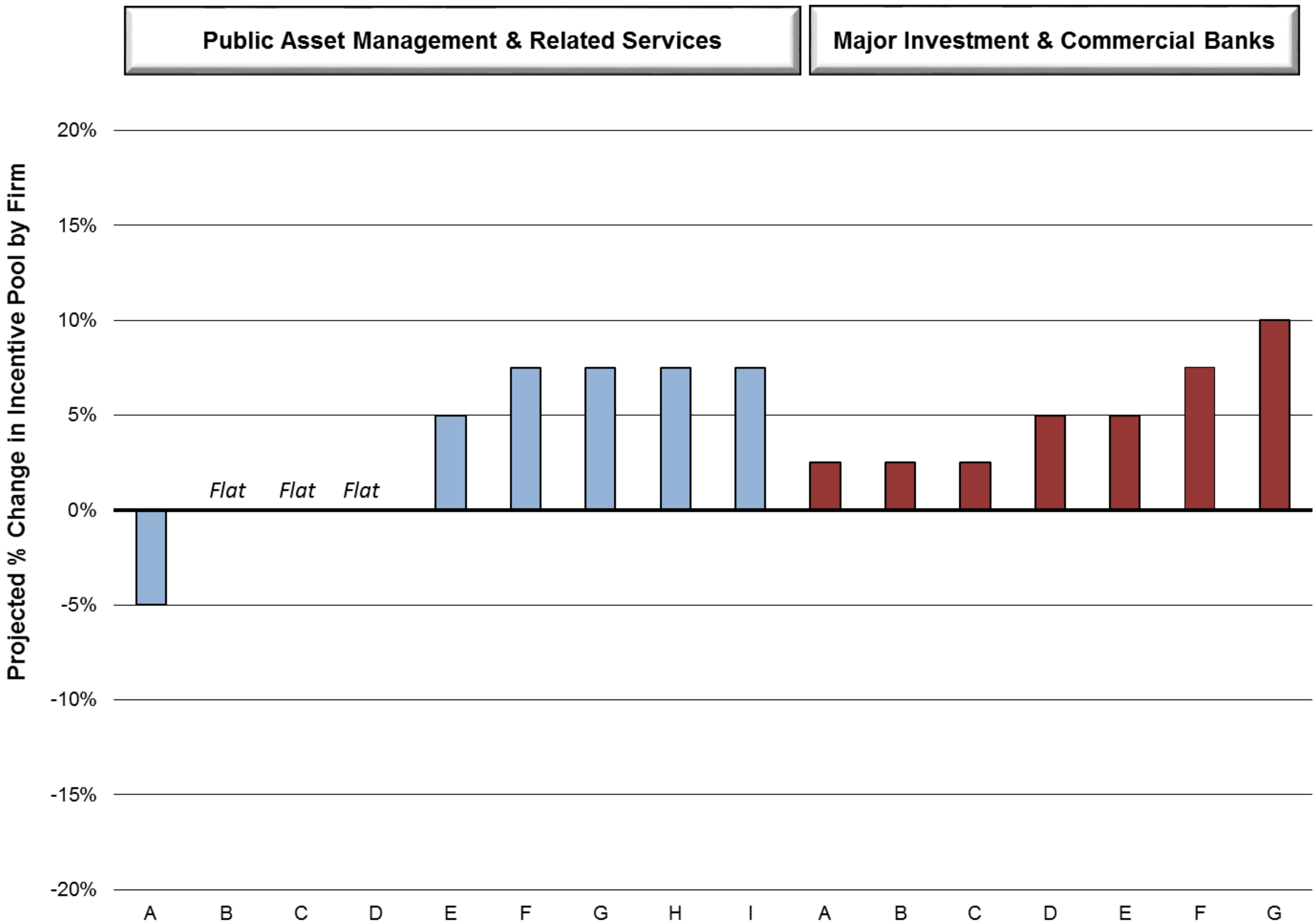
Incentive Trend

- Incentives expected to be up across sectors, hedge funds and asset management trending up slightly while private equity and investment and commercial banks see larger gains



*Note: Updated display (previously showed incentive change since 2009)

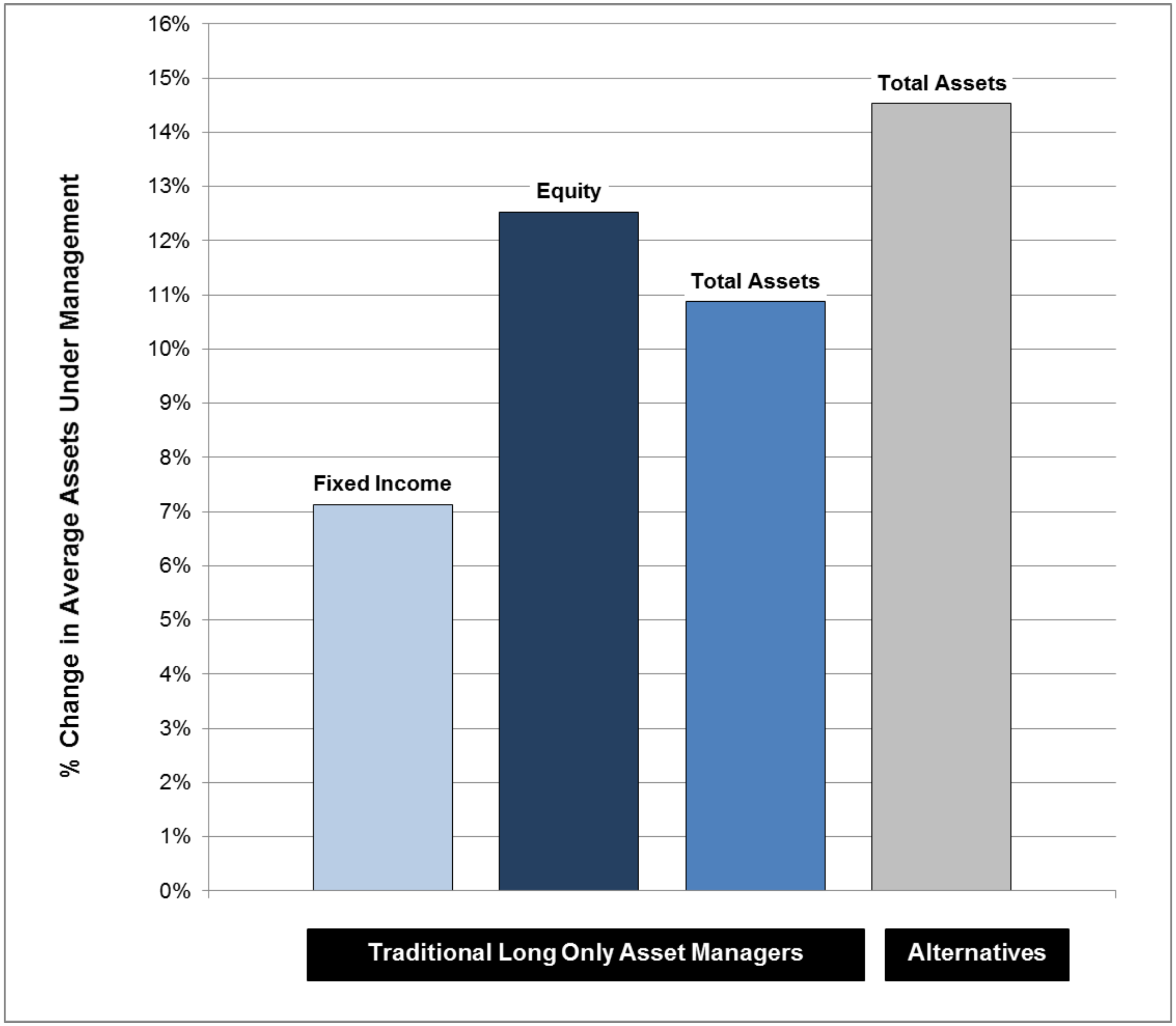
Projected % Change in Year-End Incentive Pool by Firm*



** 9 months actual data with projection for remainder of year*

Percent Change in Assets Under Management

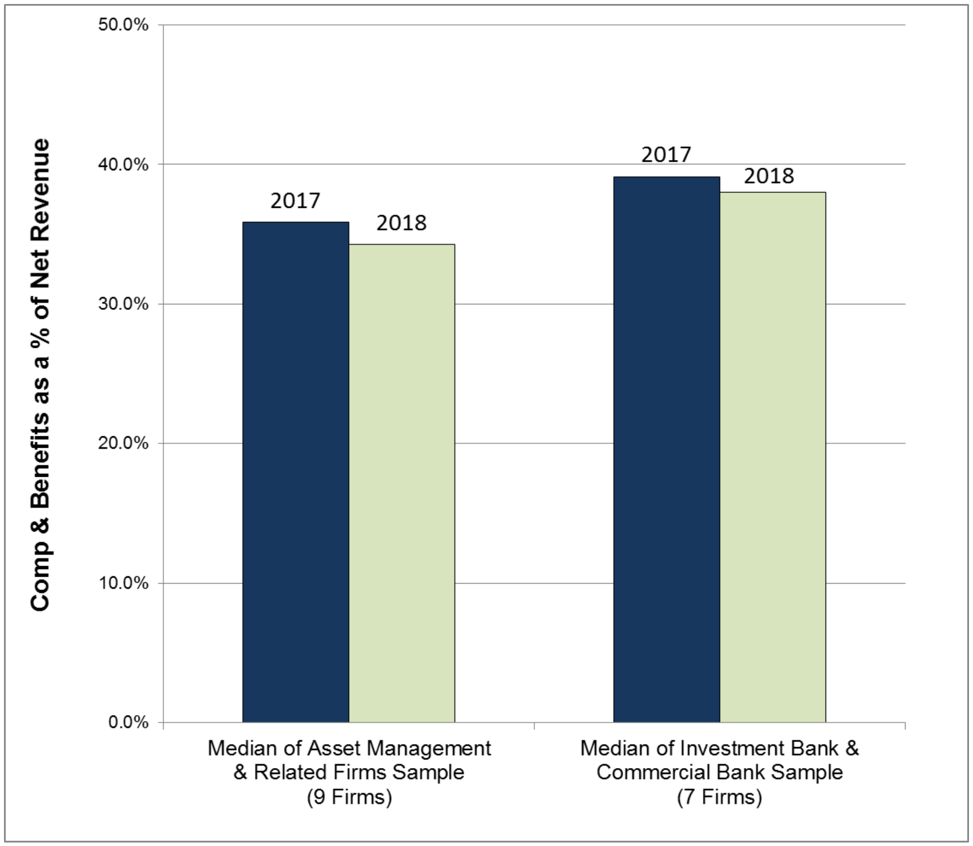
- Data represents median percentage change in average assets under management for nine months 2018 compared to average full year 2017, for traditional long only (5 select firms) and alternatives (7 select firms)



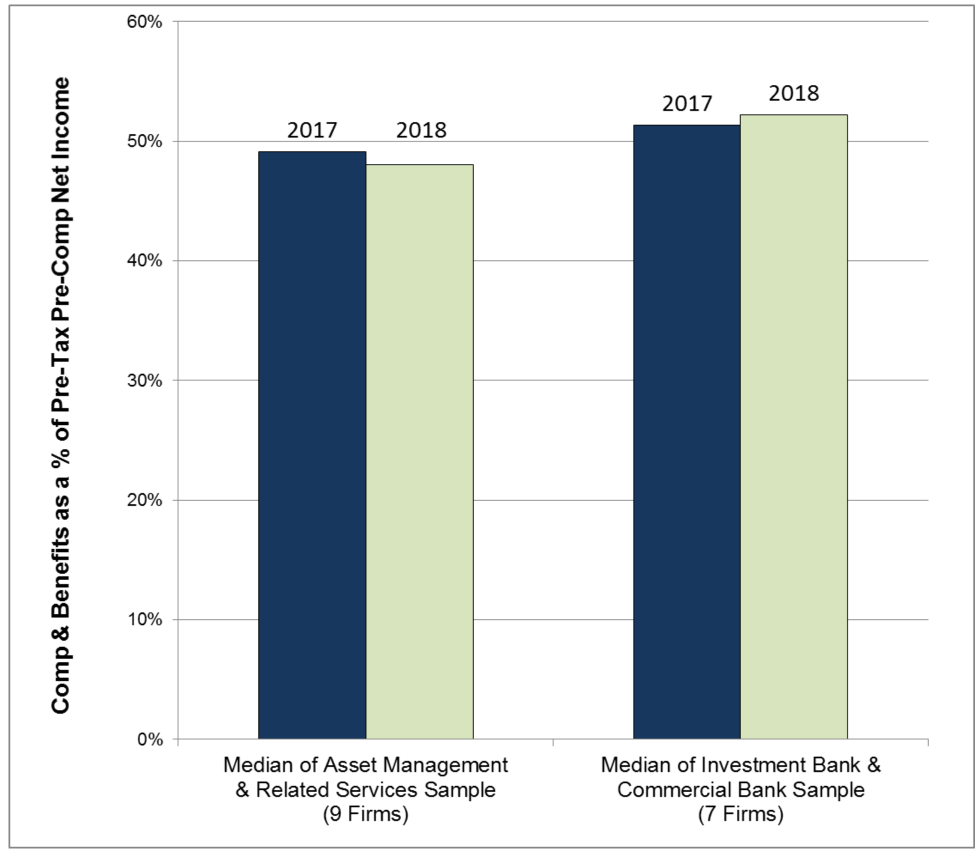
Year-to-Date Compensation & Benefits Ratios

- 9M 2017 v. 9M 2018 results; year-over-year comparisons may be skewed by partial year compensation and financial results

Compensation & Benefits as % of Net Revenue



Compensation & Benefits as % of Pre-Tax Pre-Comp Net Income



Analyst Estimated EPS Trend

- With 10 months into the fiscal year, analyst estimates reflect steady outlook for both asset management and investment and commercial banks
- Chart reflects a sample of 6 investment and commercial banks and 9 asset management and related services firms

2018 EPS Estimate Trend