# JOHNSON ASSOCIATES
# FINANCIAL SERVICES COMPENSATION
## Third Quarter Trends and Year-End Projections 11/8/17

*After the third quarter, Johnson Associates projects a broad increase in incentive compensation across financial services. Incentive compensation for asset management is expected to be up noticeably. Major investment & commercial banking firms saw overall healthy but varying results across business units. Reduced emphasis on regulation leading to more favorable industry environment. Market activity levels and interest rates are key 2017 incentive drivers.*

### *Traditional Asset Management:*

*Market appreciation bolsters industry*

- Incentives up noticeably
- Net fixed income inflows offset by uneven flows in equities
- Market appreciation boosting AUM
- Passive investing continues to take in assets and apply fee pressure as market hits record highs
- Firms looking to differentiate through innovative products and strategies

### *Alternatives:*

*Private Equity continues to impress*

- Hedge fund incentives up modestly, with unusually high dispersion on performance and related incentive outcomes
- Creative fee structures attempt to lock up assets
- Private equity incentives up significantly with strong returns and asset inflows, real estate and credit best performing sectors
- Alternatives continue to see asset inflows, deployment of capital and harvesting returns drive incentives

### *Investment and Commercial Banking:*

*Healthy results pave optimistic path forward*

- Political and regulatory environment favorable; varying but overall strong results improve incentive outlook
- Investment banking incentives up substantially, most significantly in debt and equity underwriting. M&A activity wavered but pipeline remains healthy
- Both equities and fixed income trading incentives down moderately largely due to low volatility and client activity
- Higher lending and consumer banking leading to uptick in retail and commercial banking
- Cost cutting through technology initiatives and employee relocation from expensive metropolitan areas

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

# Projected 2017 Incentive Funding

- *Headcount-adjusted basis*

### *Traditional Asset Management & Alternatives*

| Business/Area | % Change from 2016 |
|---|---|
| **Asset Management** (Independent and Captive)<br>*Uneven flows by asset class, fixed income receiving most inflows. Market appreciation continuing to bolster AUM, fee pressure still suppressing revenue growth* | **5% to 10%** |
| **Hedge Funds** (Independent and Captive)<br>*Unusually high dispersion on performance and related incentive outcomes. Returns still trail broad market indices but positive flows continue. Macro strategies remain investor favorite. Continued fee pressure leading to creative fee structures in attempt to lock up assets* | **≈ 5%*** |
| **Private Equity**<br>*High valuations contribute to attractive exit opportunities, record number of funds. Largest firms seeing inflows, deploying capital effectively remains an issue. Real estate and credit returns healthiest across industry* | **10% to 15%*** |
| **High Net Worth**<br>*Strong inflows, higher fee revenues* | **5% to 10%** |

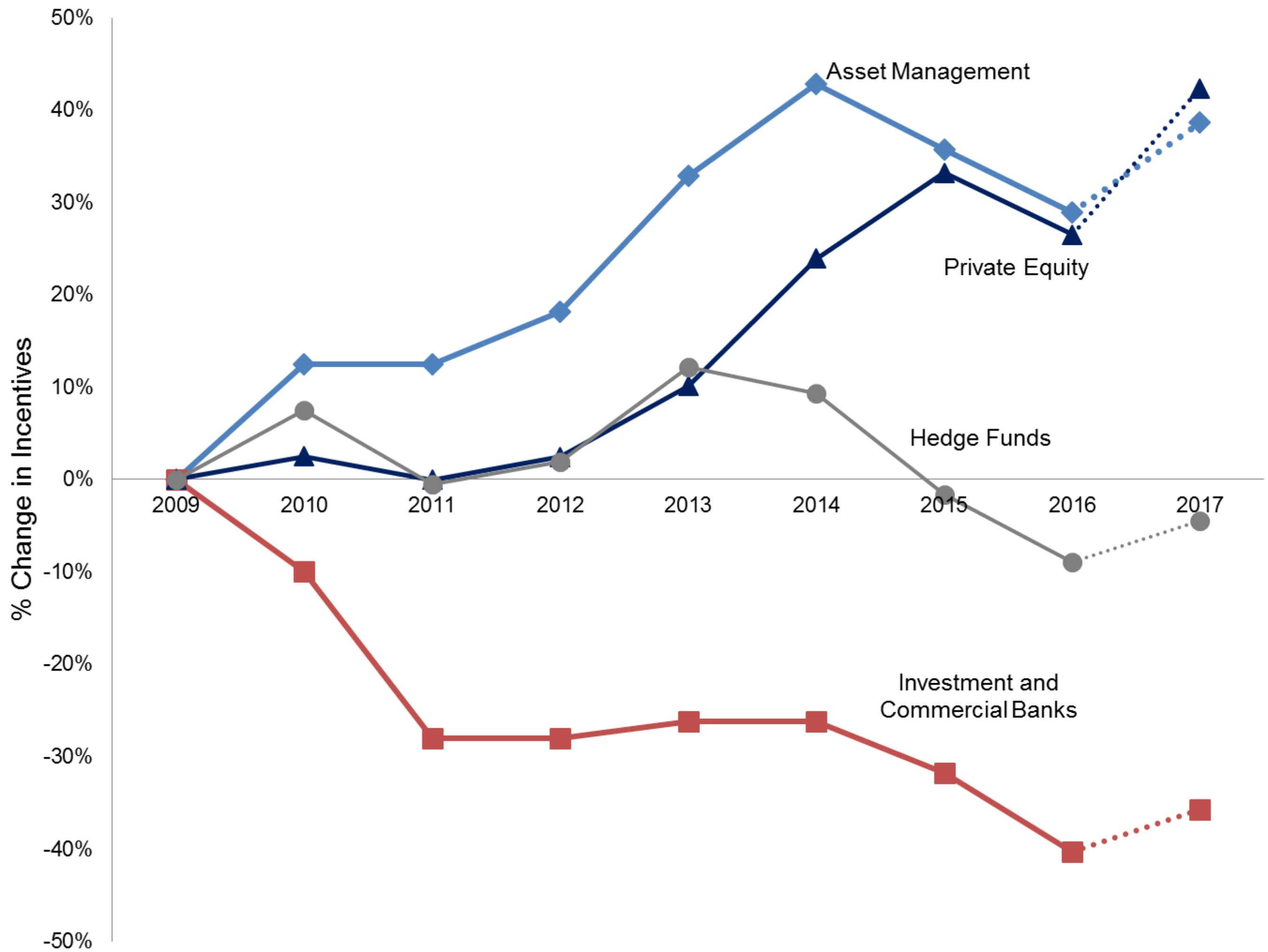
*Applies to incentive and equity, excluding carry

### *Investment & Commercial Banking*

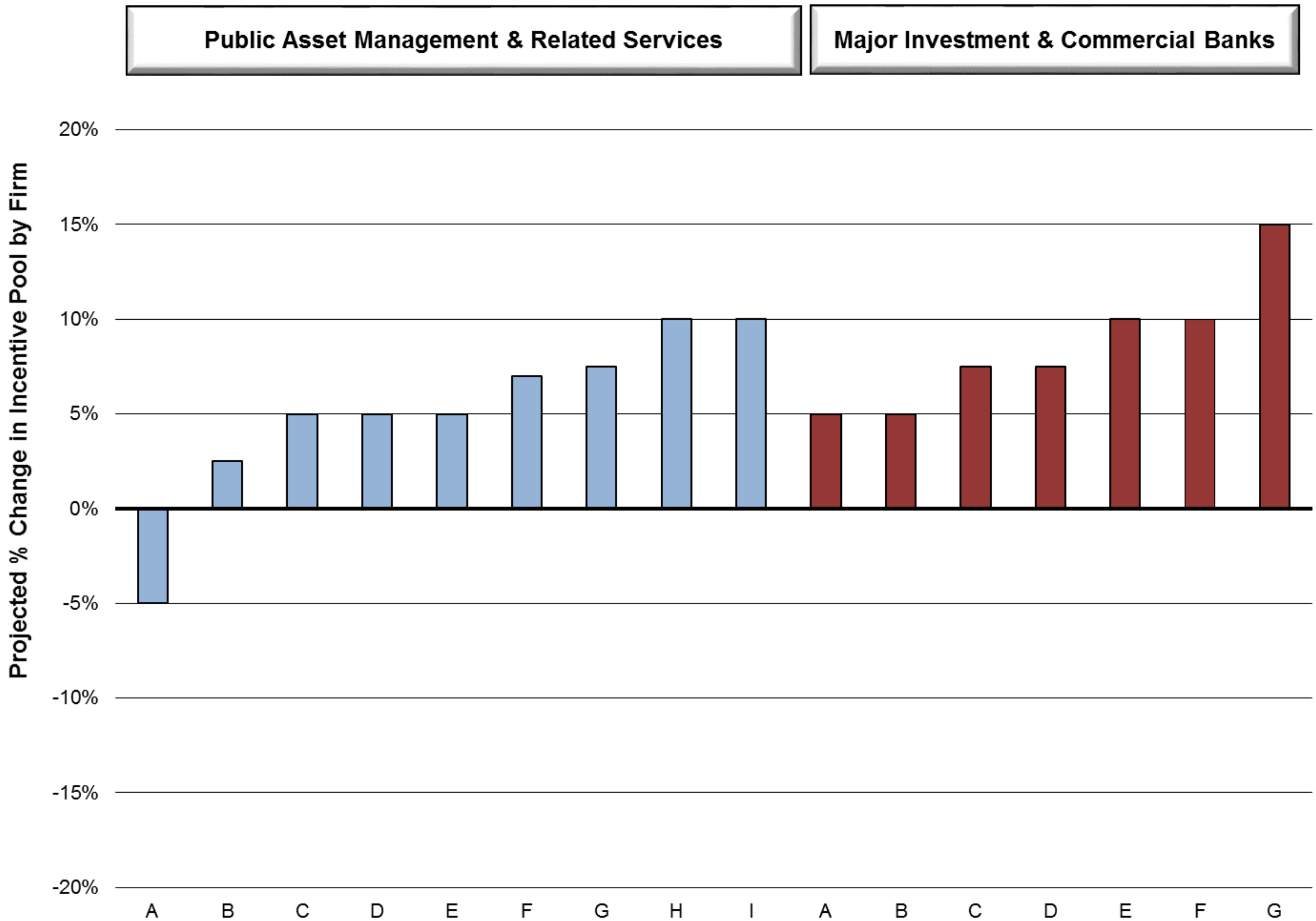
| Business/Area | | % Change from 2016 |
|---|---|---|
| **Firm Management/Staff Positions**<br>*Generally moves in line with entire firm. Technology initiatives leading to cost cutting by trimming headcount. Continued employee relocation to low-cost areas* | | **5% to 10%** |
| **Investment Banking**<br>*Industry-wide M&A activity slowed down but pipeline remains healthy. Equity and debt underwriting up significantly; advisory up moderately* | Advisory<br>Underwriting | **5% to 10%**<br>**15% to 20%+** |
| **Sales & Trading**<br>*Low levels of market volatility and client activity contributing to underwhelming results* | Equities<br>Fixed Income | **0% to -5%**<br>**-5% to -10%** |
| **Retail & Commercial Banking**<br>*Higher lending, rising interest rates* | | **5% to 10%** |

## Incentive Trend

- Incentives expected to be up broadly across sectors, hedge funds trending up moderately while private equity, asset management, and investment and commercial banks see strong improvements (dashed lines indicate projected incentive trend)



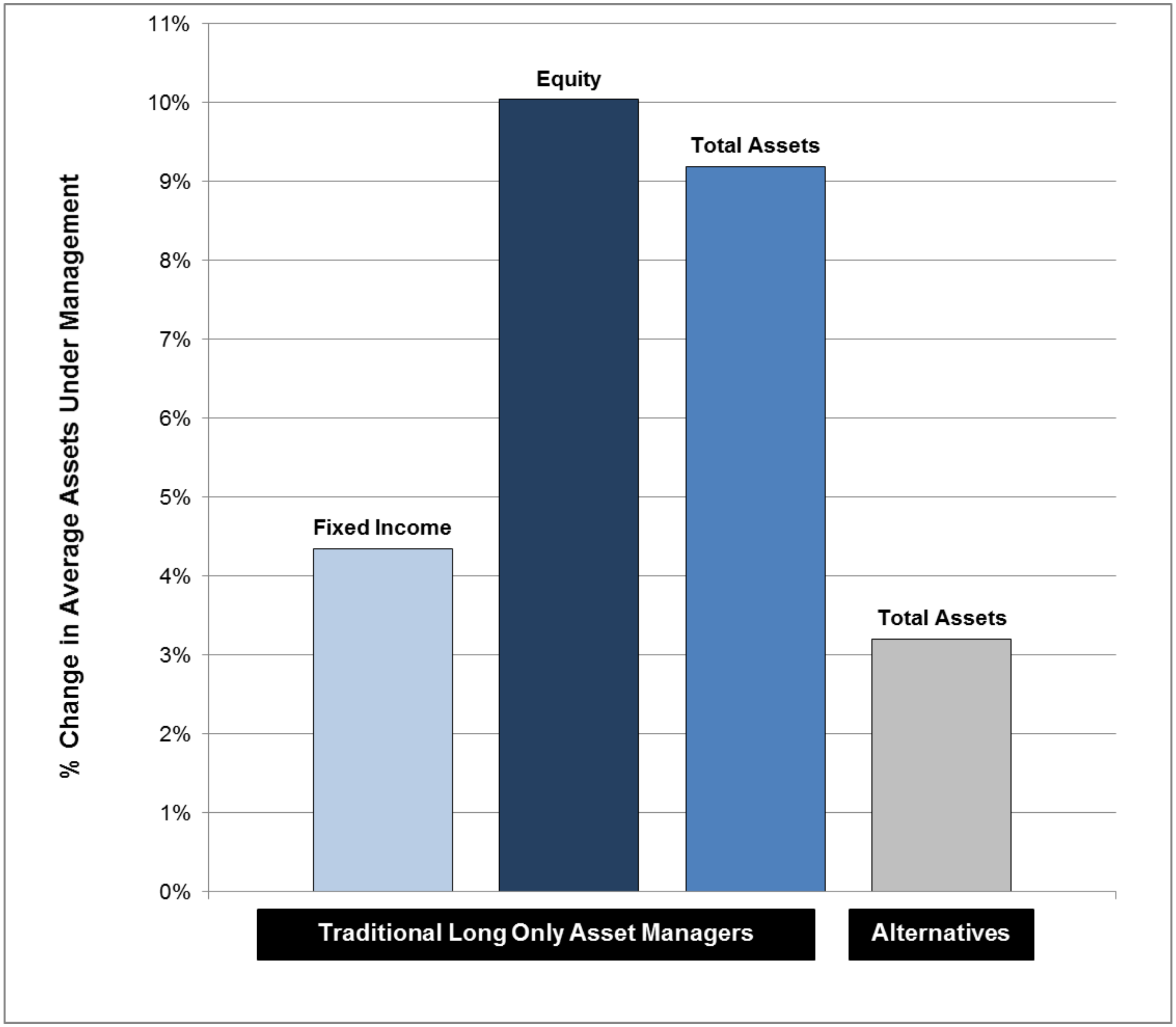
## Projected % Change in Year-End Incentive Pool by Firm*




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

## Percent Change in Assets Under Management

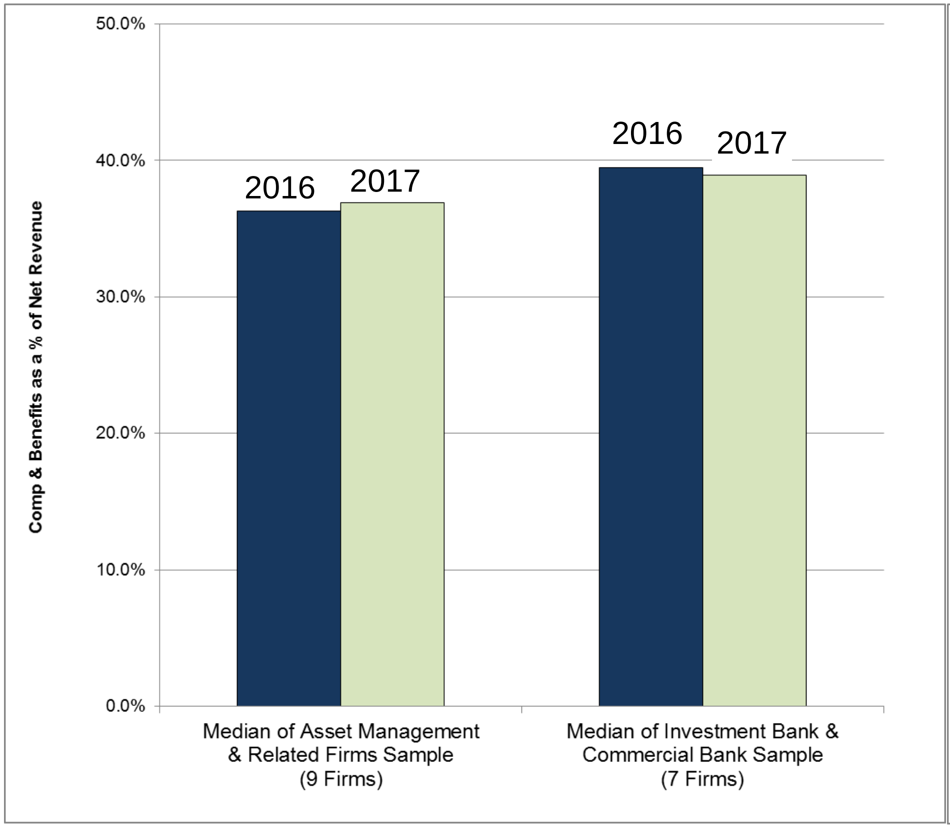
- Data represents median percentage change in average assets under management for nine months 2017 compared to average full year 2016, for traditional long only (5 select firms) and alternatives (7 select firms)



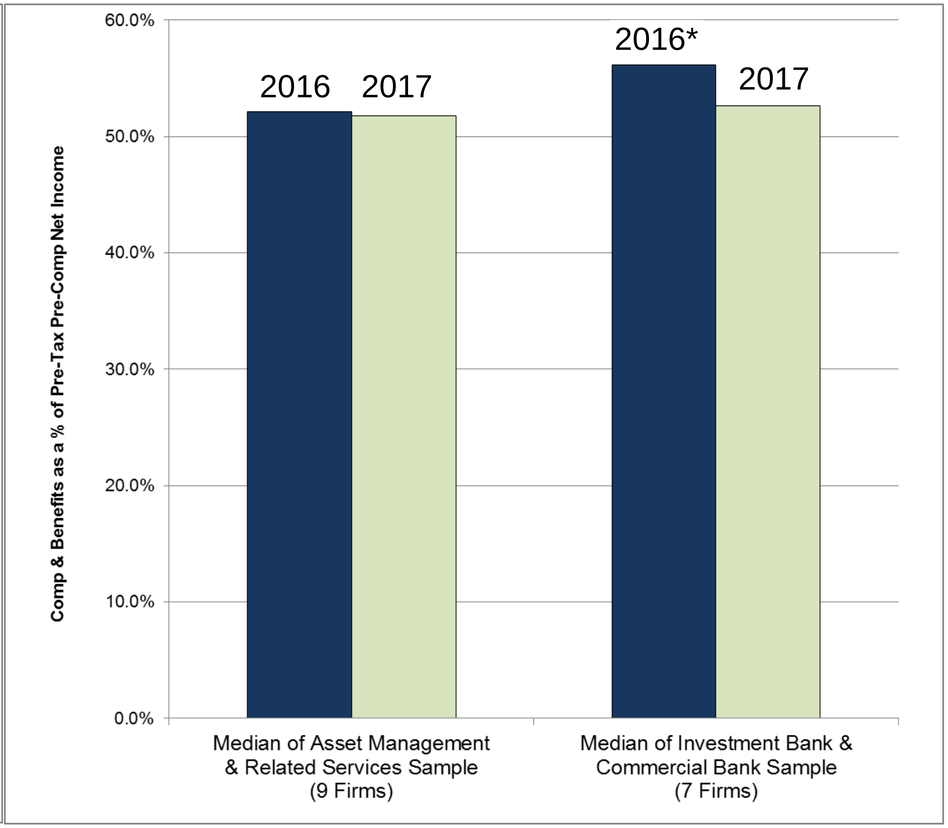
# Year-to-Date Compensation & Benefits Ratios

- 9M 2016 v. 9M 2017 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




* *Note: 2016 ratio impacted by outlier data point. On a normalized basis, would be similar to 2017 %*

# Analyst Estimated EPS Trend

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

***2017 EPS Estimate Trend***