JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
Second Quarter Trends and Year-End Projections 8/10/16

After the second quarter, Johnson Associates broadly projects lower incentive compensation across financial services. Incentive compensation for asset management is expected to decrease modestly with major investment & commercial banking firms down across most businesses. Mix of business, market activity, interest rates, and ongoing uncertainty in world markets are key 2016 incentive drivers.

Traditional Asset Management:
Industry faces headwinds

- Incentives down modestly for the second year
- Business fundamentals strained (fee pressure, modest returns, and uneven asset flows)
- Expect cost cutting and headcount constraints, as challenges less cyclical
- Firms focus on differentiation for higher fees and asset flows (through customized solutions, technology, and alternative strategies)
- Recent market appreciation impacts employee perception; managing expectations key

Alternatives:
Hedge Funds Continue Negative Trend

- Hedge fund results continue to be weak on uneven flows and modest returns
- Private equity incentives down modestly due to mediocre returns and fewer investment opportunities
- Investors continue gravitating towards alternatives, seeking returns and diversification; however, increasing fee pressure on new assets squeeze historical margins

Investment and Commercial Banking:
Projected broadly negative across businesses

- Business mix and prior year performance impacts overall Company results
- Investment banking incentives down, most significantly in equity underwriting
- Trading incentives decline on difficult market conditions and reduced activity
- Retail and commercial banking up slightly on solid deposits and loan growth
- Focus on cost cutting and right-sizing business in line with strategy shifts
- Brexit creates additional uncertainty, potential future rising costs, and revenue pressure, most significantly in UK and Europe

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

Projected 2016 Incentive Funding

- *Headcount-adjusted basis*

Traditional Asset Management & Alternatives

Business/Area	% Change from 2015
Asset Management **(Independent and Captive)** *Modestly lower average AUM on mixed flows, partially offset by market appreciation. Fixed income funds outperforming equities*	**-5% to -10%**
Hedge Funds (Independent and Captive) *Uneven flows and modest returns*	**-5% to -15%***
Private Equity *Difficult business results with mediocre returns and challenging environment for new investments*	**-5%***
High Net Worth *Assets generally more stable*	**-5%**

Investment & Commercial Banking

Business/Area		% Change from 2015
Firm Management/Staff Positions *Generally moves in line with entire firm, but increasingly conservative bias due to focus on cost control*		**-10% to -15%**
Investment Banking *Industry-wide completed activity lower. Equity underwriting down significantly; advisory and debt underwriting down moderately*	**Advisory** **Underwriting**	**-5% to -15%** **-15% to -25%+**
Sales & Trading *Lower levels of client activity and difficult market conditions across most businesses*	**Equities** **Fixed Income**	**-5% to -15%** **-10% to -15%**
Retail & Commercial Banking *Solid deposit and loan growth*		**0% to +5%**

*Applies to incentive and equity, excluding carry

2016 Hot Topics

- *After a concerted review of trends in the second quarter, the following trends disclosed in the first quarter report continue to be relevant topics and are once again highlighted here.* ***Second quarter featured new and noteworthy trends highlighted***

Plan Design and Implementation

Incentive Design

- Alternatives retesting fundamental compensation models with pressure to increase returns. In addition to pure performance, other measurement factors receiving more attention include risk, collaboration, and fundraising. Focus on extending duration of incentives
- Expect wider differentiation in pay due to constrained incentive pools
- Reduced stock prices impact prior deferrals; creates competitive advantage for those looking to recruit from banks. Continued use of products as currency to diversify
- Constrained pools, cost cutting, and competition from technology sector, calls for greater creativity
- Hybrid sales models more common in both traditional and alternative asset management (combination of formula/discretion to recognize team sales, avoid windfalls, reward qualitative behavior etc.)
  - Impact of the DOL fiduciary rule not yet seen; could impact structure of sales compensation. ***Companies begin planning for effect (expected to go beyond retirement assets)***
- Compensation design and decision making should entail the same rigor given to other business/investment decisions. In many cases, has not been sophisticated planning

Market Environment Trends

Talent Market & Culture

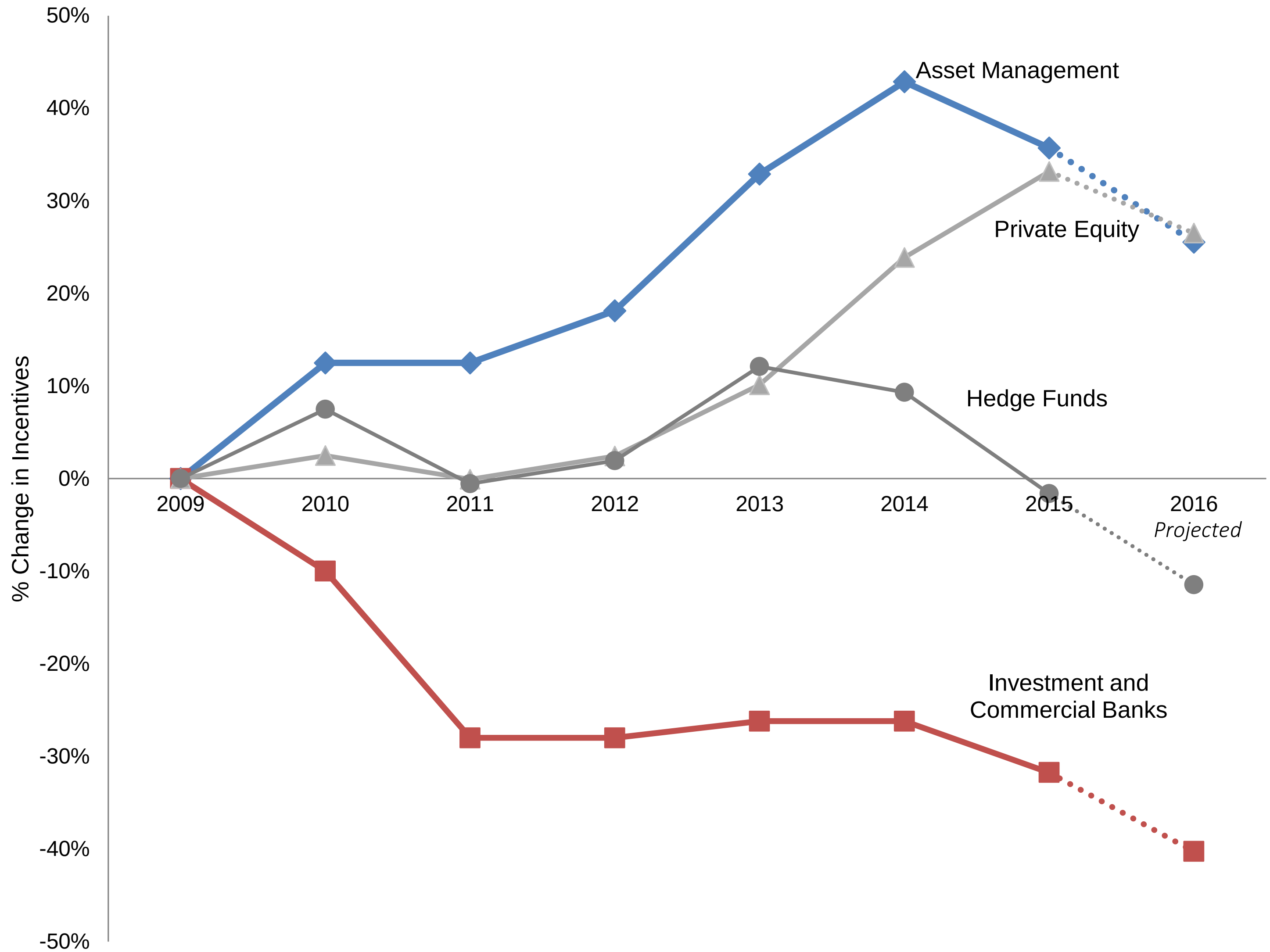
- ***Constrained hiring and targeted headcount reductions continue. Focus on utilizing lower cost locations and technology efficiencies to reduce expenses***
- Turnover should be more managed. Need a plan, or goal/target tied to compensation decisions and performance (increased differentiation)
- Low turnover has created logjam in middle of organizations. Need to be more aggressive and thoughtful in pay and promotion decisions for junior employees. Rigid structures less helpful
- Traditional compensation surveys less useful as more firms have hybrid roles; need a more nuanced, thoughtful benchmarking approach
- Continued focus on compliance, risk, and high-end technology functions drives demand for more specialized talent
- Financial services now competing with technology firms for talent; presents challenges for recruiting and retention (design of pay packages often varies widely across industries). Focus on high-end talent with high-end pay
- ***Companies begin planning for potential staffing adjustments in select businesses, due to Brexit***

Regulation

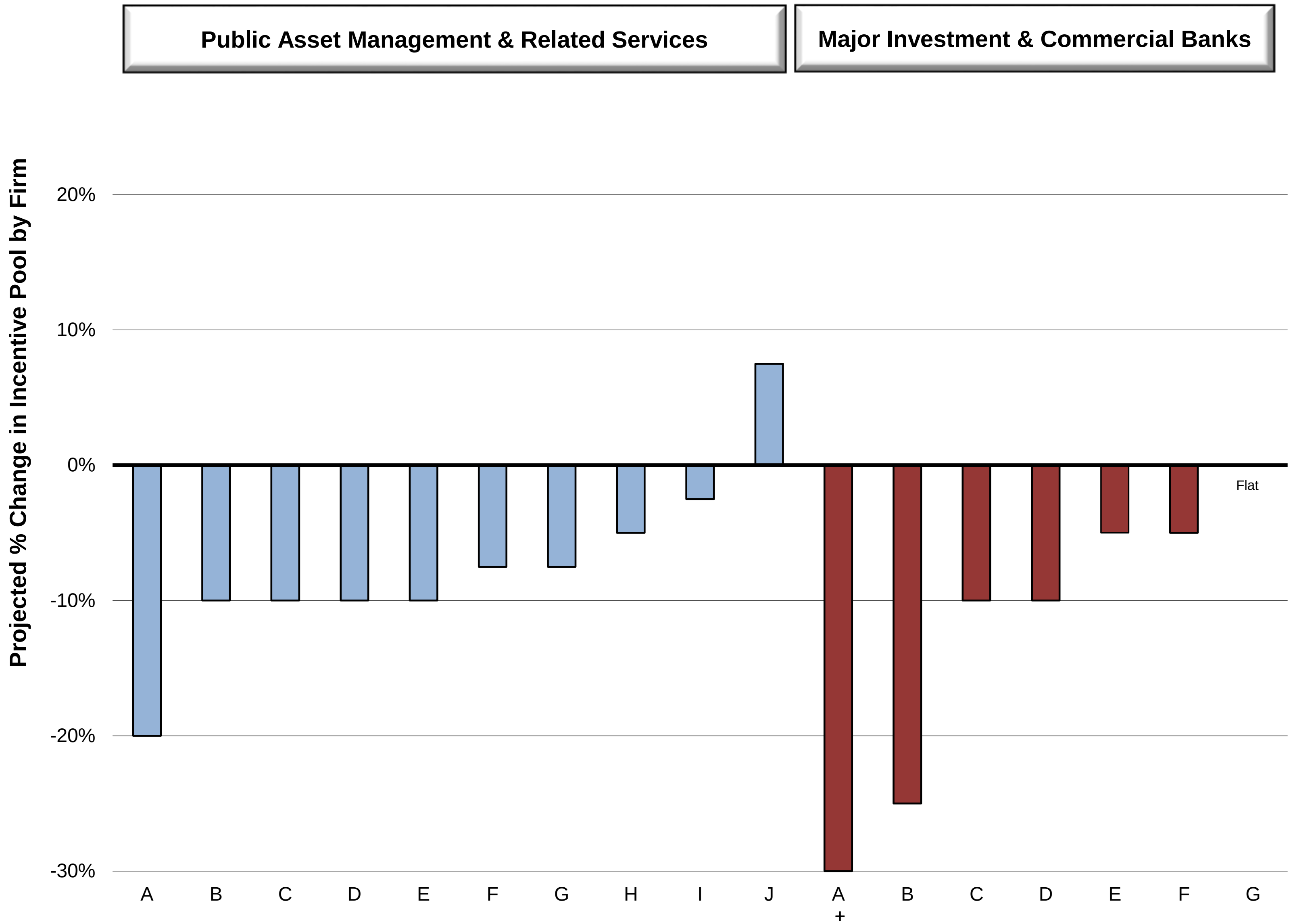
- Proposed U.S. pay guidelines published; target implementation date mid 2018 for future performance periods (2019 most likely impact)
- Prohibits incentives that encourage inappropriate risks. Requires documentation maintained for 7 years
- Depending on assets (excluding client assets), requires deferrals of 40-60% for 3-4 years for senior executives and significant risk takers. Deferrals must consist of cash and equity (no more than 15% options)
- Assets over $50B provide clawbacks for 7 years from vesting
- Maximum leverage for incentives above target is 125% to 150%

Incentive Trend

- Incentives generally expected to decline across financial services



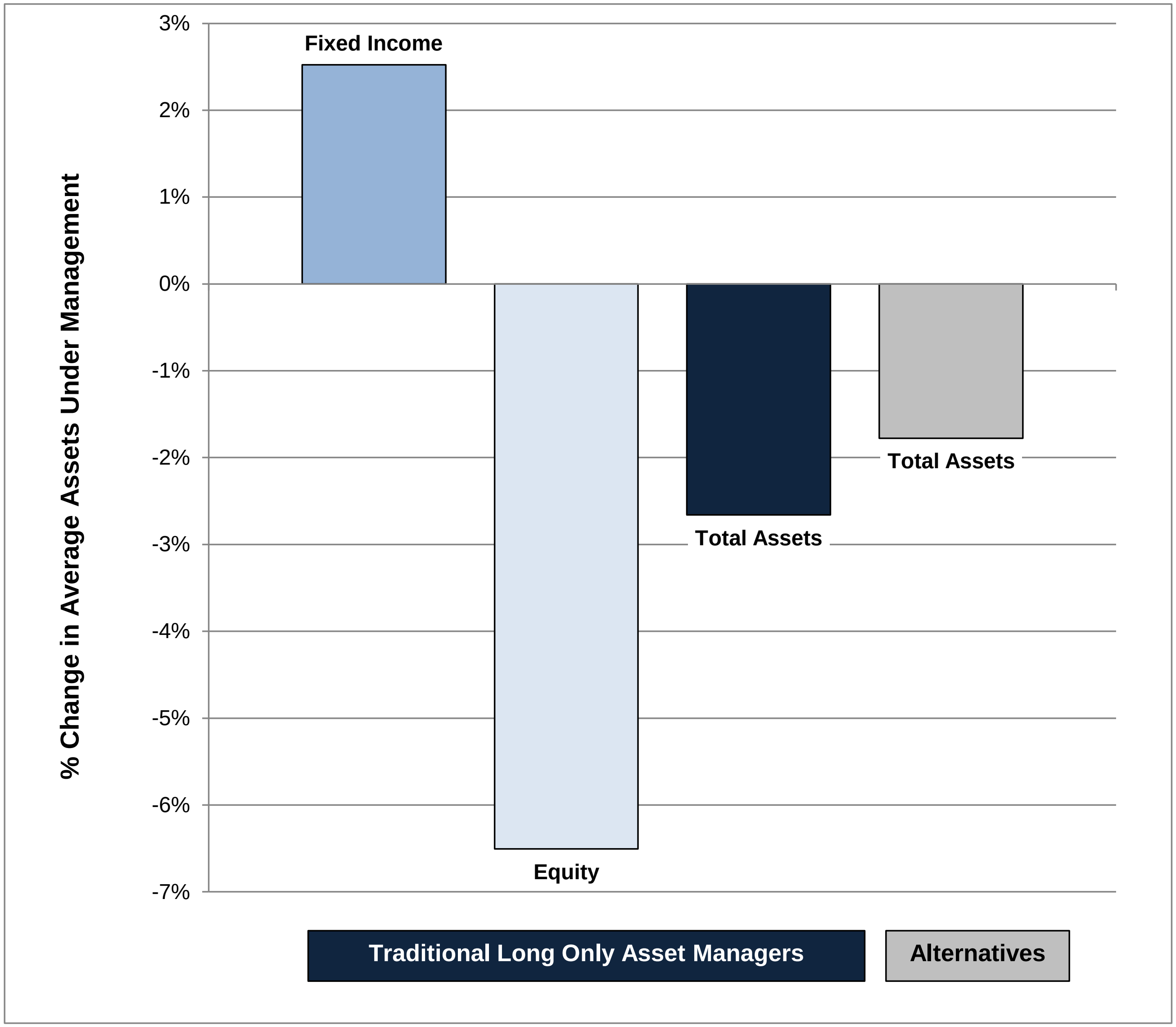
Projected % Change in Year-End Incentive Pool by Firm*



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

Percent Change in Assets Under Management

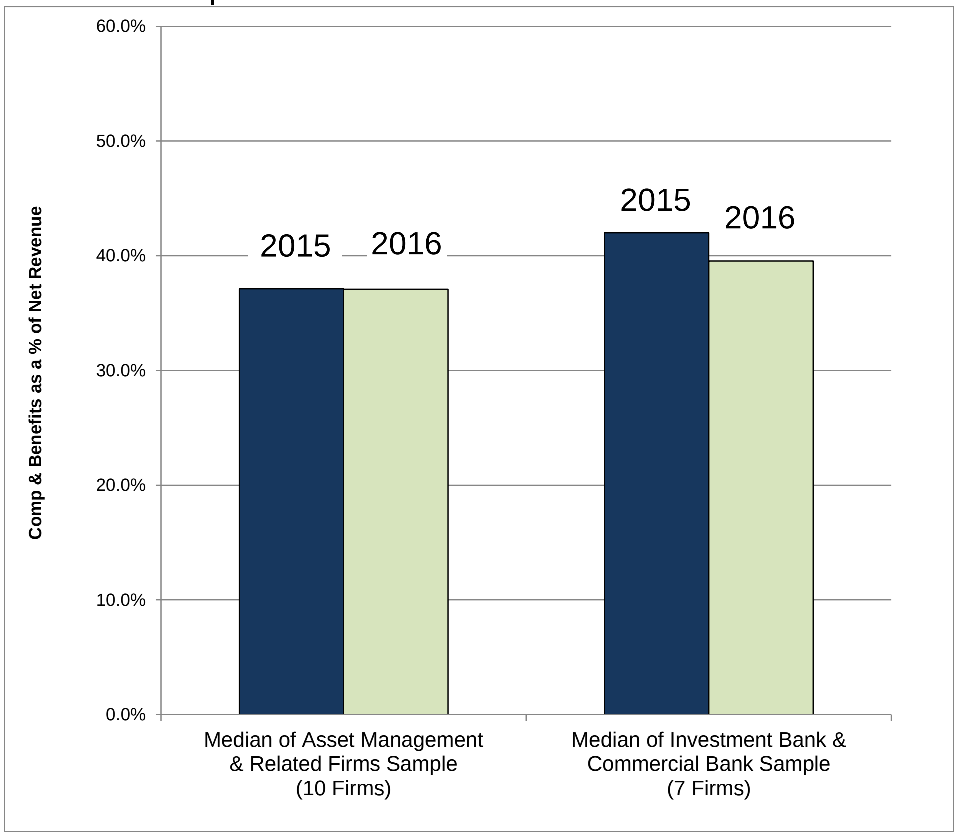
- Data represents median percentage change in average assets under management for six months 2016 compared to average full year 2015, for traditional long only (6 select firms) and alternatives (7 select firms)



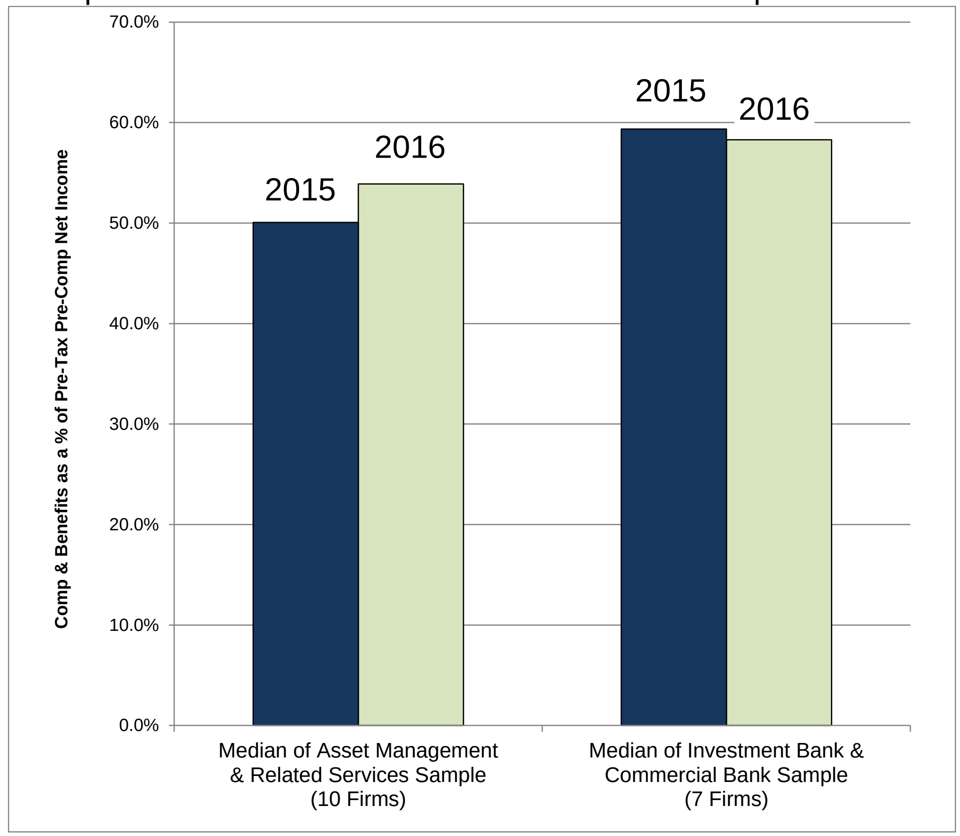
Year-to-Date Compensation & Benefits Ratios

- 6M 2015 v. 6M 2016 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 seven months into the fiscal year, analyst estimates reflect a stabilizing outlook across financial services
- Chart reflects a sample of 6 investment and commercial banks and 10 asset management and related services firms

2016 EPS Estimate Trend