JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
First Quarter Trends and Year-End Projections 5/10/17

After the first quarter, Johnson Associates projects mixed incentive compensation across financial services. Incentive compensation for asset management is expected to be flat. Major investment & commercial banking firms saw overall better results with disparities in incentives based on business unit. Political uncertainty, market activity, interest rates, and ongoing challenges in world markets are key 2017 incentive drivers.

Traditional Asset Management:
Industry faces challenges

- Incentives flat, wide variance by firm
- Business fundamentals strained (active investing outflows, fee pressure, mediocre returns relative to market, and increased costs)
- Mixed net flows, generally with fixed income inflows offset by equities outflows
- Market appreciation bolsters AUM, diverts attention away from industry outflows and challenging fee environment
- Cost cutting and headcount constraints continue

Alternatives:
Private Equity gains momentum

- Hedge fund incentives flat reflecting fee pressures, capital outflows and relative strong broad market performance; vary widely by strategy
- Private equity incentives up significantly with better returns and asset inflows but fewer investment opportunities created by higher market valuations
- Alternatives continue to be the beneficiary of investors seeking returns, but go-forward results challenged by increasing dry powder and competition for lucrative deals

Investment and Commercial Banking:
Stronger performance leads to positive sentiment

- More upbeat environment across industry, political uncertainty remains at forefront
- Investment banking incentives up substantially, most significantly in debt and equity underwriting, offset by decline in advisory
- Fixed income trading incentives up moderately on stronger performance, equities trading incentives down slightly on lower levels of activity
- Retail and commercial banking flat to up slightly on moderate deposits and loan growth
- Focus on cost cutting with strategy shifts (technology efficiencies, conservative hiring, moving headcount to lower cost locations) while also increasing staff in regulatory and cyber security departments

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Projected 2017 Incentive Funding

- *Headcount-adjusted basis*

Traditional Asset Management & Alternatives

Business/Area	% Change from 2016
Asset Management (Independent and Captive) *Modestly higher average AUM on market appreciation, partially offset by asset outflows. Equity funds outperforming fixed income*	**-5% to 5%**
Hedge Funds (Independent and Captive) *Returns trail broad market indices; continued pressure on fees; capital outflows in underperforming funds; wide variability in performance by strategy (Equity, Event Driven and Credit better); noted outliers*	**-5% to 5%***
Private Equity *Continued outside pressures fuel record AUMs but high valuations and competition for deals mean historically high dry powder levels; dominance of select large players despite record vehicles seeking commitments*	**5% to 15%***
High Net Worth *Assets generally more stable*	**0 to 5%**

*Applies to incentive and equity, excluding carry

Investment & Commercial Banking

Business/Area		% Change from 2016
Firm Management/Staff Positions *Generally moves in line with entire firm. Cost control in some areas mixed with additional staffing in compliance and cyber security*		**5% to 10%**
Investment Banking *Industry-wide completed activity higher. Equity and debt underwriting up significantly; advisory underwriting down moderately*	**Advisory** **Underwriting**	**-5% to -10%** **10% to 20%+**
Sales & Trading *Lower levels of client activity and difficult market environment across most businesses continues, but strong fixed income results relative to poor past quarters*	**Equities** **Fixed Income**	**0% to -5%** **10% to 15%**
Retail & Commercial Banking *Modest deposit and loan growth*		**0% to 5%**

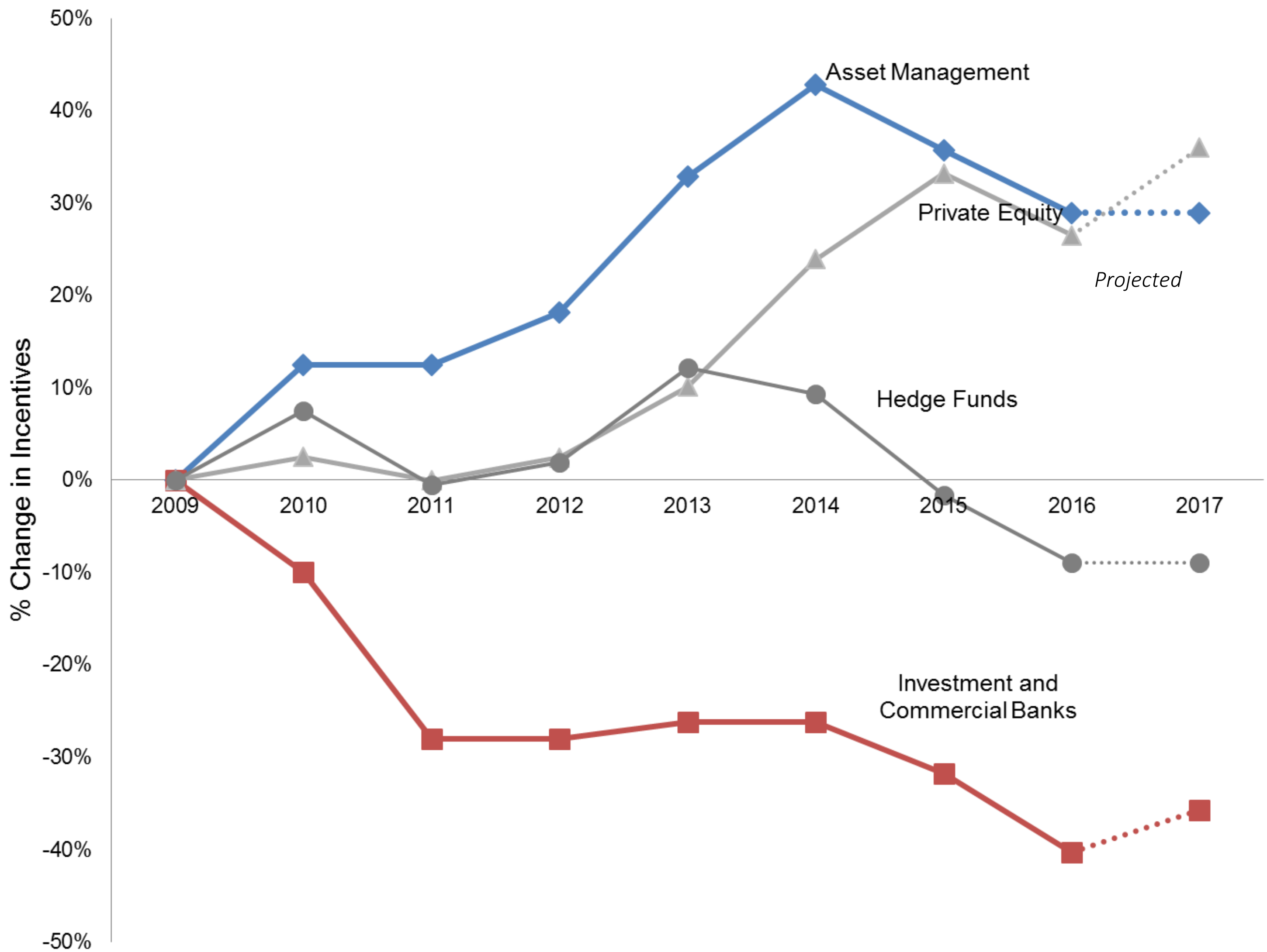
2017 Compensation Themes

A generally more upbeat business environment and compensation outlook for Financial Services than recent years

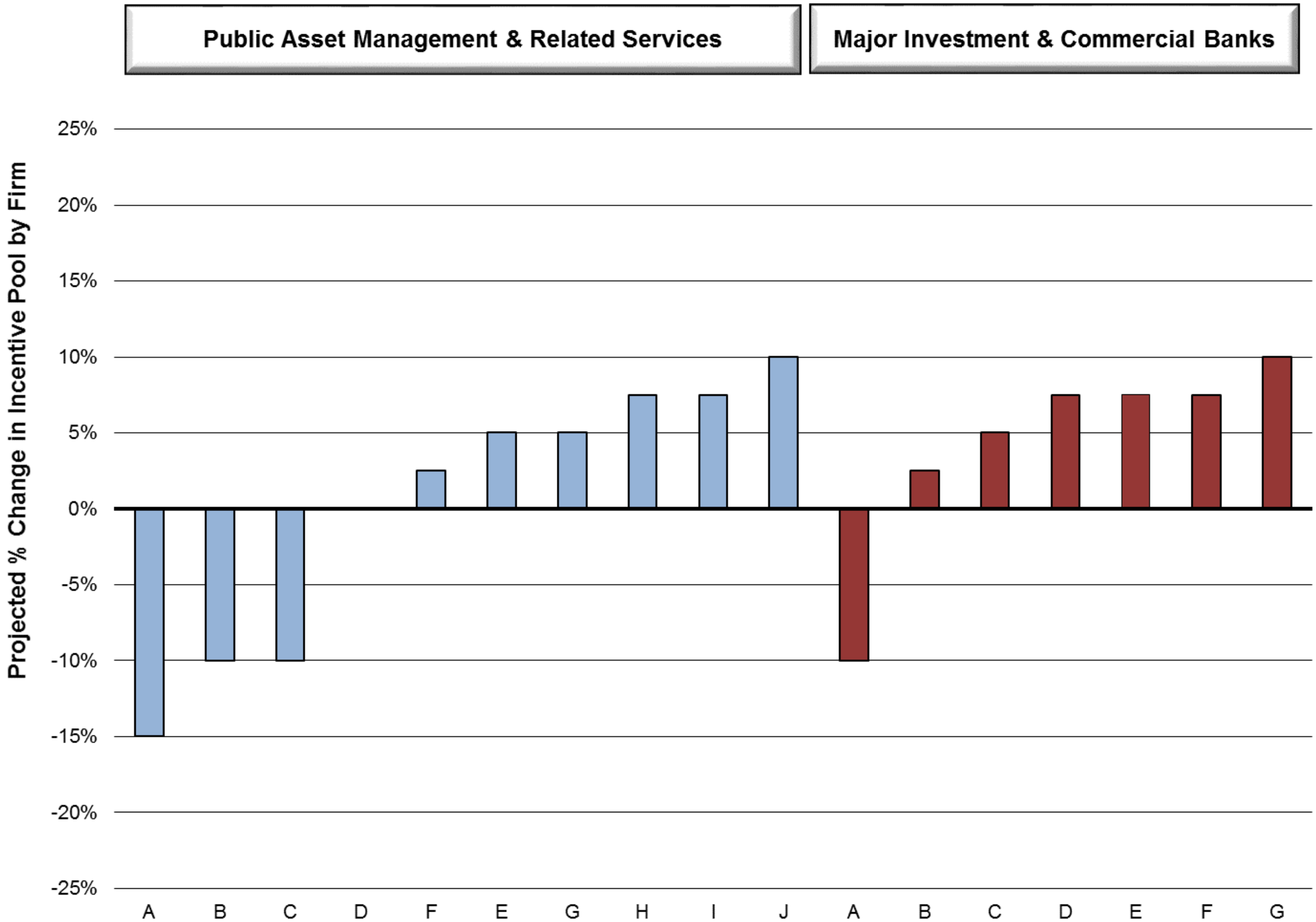
- **Uncertain change implementation of pending regulatory changes (i.e., Dodd Frank, DOL) under new administration; general perception will be less burdensome**
- **A real need, and opportunity for creativity/appropriate aggressiveness in compensation design**
  - Improved line-of-sight for incentive structures, and long-term vehicle application and form
  - At the executive level, incentive design stifled by shareholder advisory groups where proscriptive mandates may not align with business strategies
  - With systemic changes in asset management sector, incentive design needs more creativity and focus on growth
  - As alternative investment businesses mature, greater consideration for succession leading to broader equity participation
- **Sales models continue to evolve 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 uncertain under new Administration impacting structure of sales compensation. Some firms continue design changes regardless of official outcome of rule (expected to go beyond retirement assets)
- **Talent management and culture high priorities; More conscious pay decisions and explicit compensation philosophies**
  - Lesson from Technology sector: talent and contribution more important than hierarchy especially for younger professionals
  - Considerable improvements in performance management. Focus on better/fewer professionals
  - Use of data / tech slowly moving into Human Resource to better manage talent and assess performance
  - More nuanced use of market data to benchmark compensation of key positions. Conventional surveys, and anecdotal information, doesn't account for or even include hybrid roles
  - Wider differentials in pay expected to retain top talent, with broad turnover accepted and generally considered healthy
  - Increasing focus on cost of living differences (i.e., California), moving headcount to lower cost locations, and cash flow needs of mid and junior level professionals (more cash, less deferral)

Incentive Trend

- Incentives expected to diverge across industries, asset management and hedge funds trend flat while private equity and investment and commercial banks see significant improvements



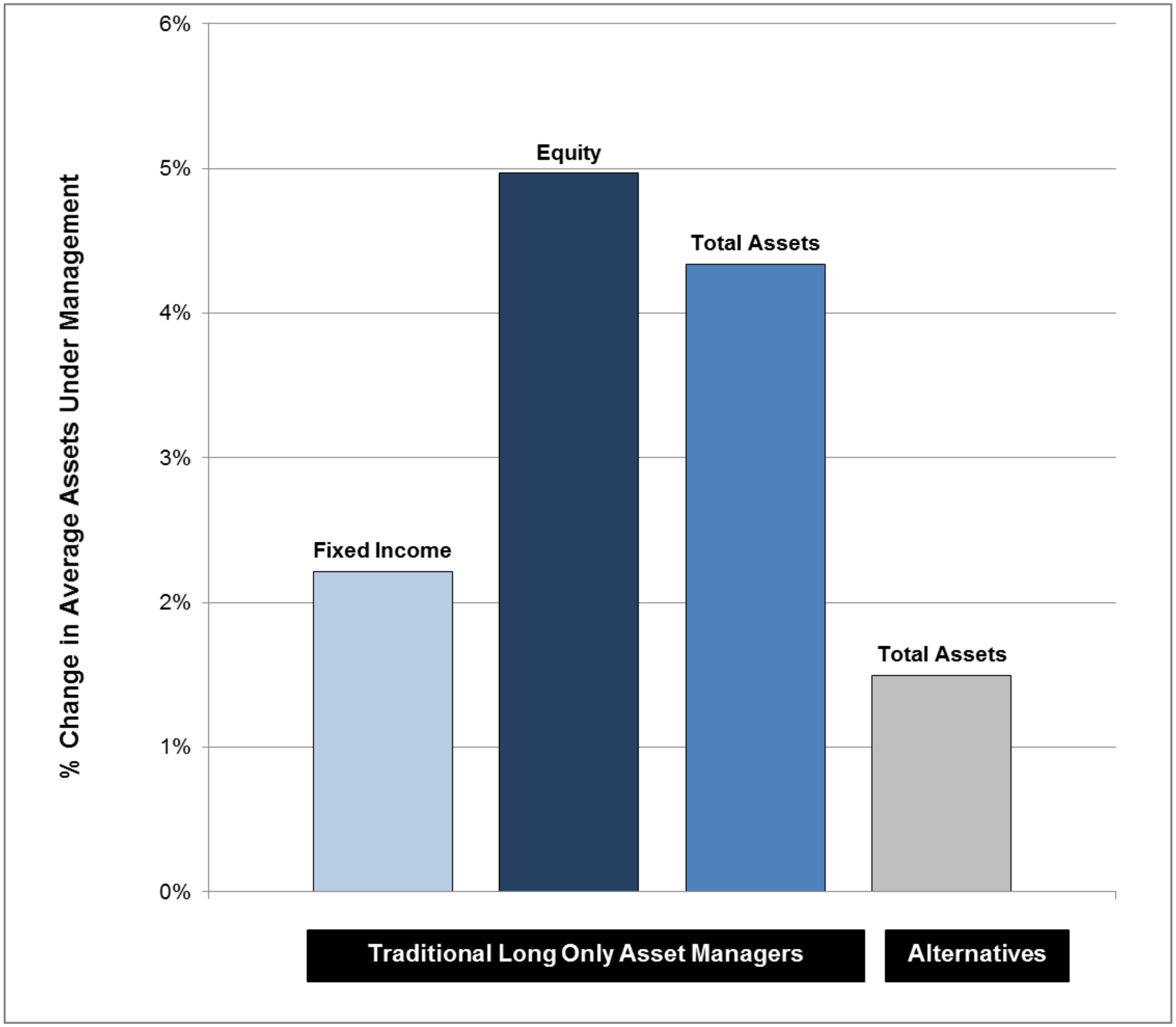
Projected % Change in Year-End Incentive Pool by Firm*



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

Percent Change in Assets Under Management

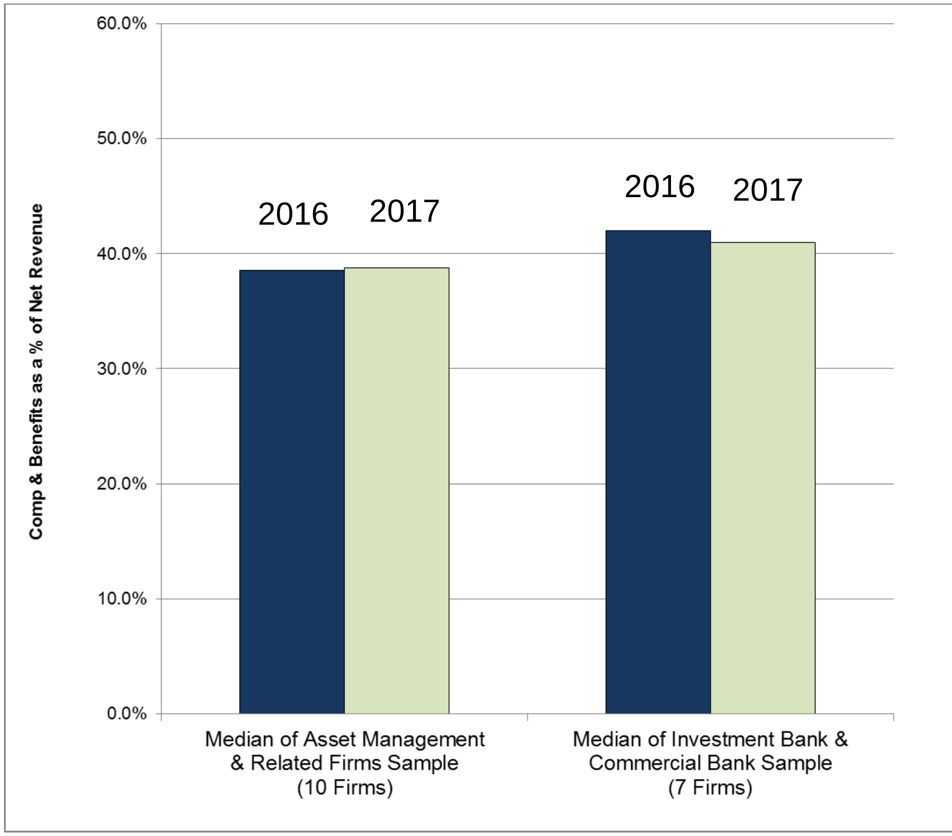
- Data represents median percentage change in average assets under management for three months 2017 compared to average full year 2016**,** for traditional long only (6 select firms) and alternatives (7 select firms)



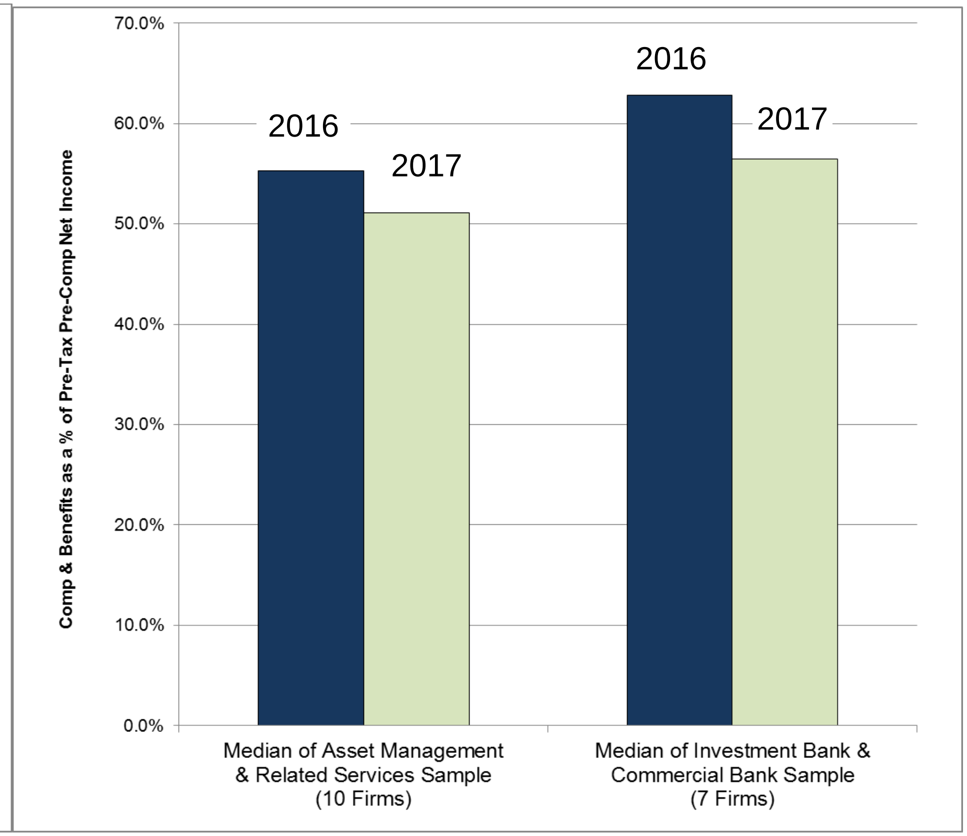
Year-to-Date Compensation & Benefits Ratios

- 3M 2016 v. 3M 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



Analyst Estimated EPS Trend

- With 4 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

2017 EPS Estimate Trend