# JOHNSON ASSOCIATES
# FINANCIAL SERVICES COMPENSATION
## Third Quarter Trends and Year-End Projections 11/12/19

- *After the third quarter, Johnson Associates projects modest decreases in incentive compensation across asset management and investment and commercial banking vs. slight increases in alternatives. Major investment & commercial banking firms struggled in trading and underwriting while investment and wealth management remained flat. Geopolitical tension, interest rates, and market volatility continue to be key factors for 2019 incentives.*

### *Traditional Asset Management:*

*Margin compression as clients shift to low fee products*

- Incentives down slightly despite market strength
- Outflows in active equities persist; flows from equities to fixed income
- Large-scale effort to build out captive alternatives units
- Some firms experiencing broad-based layoffs in cost-cutting efforts

### *Alternative Investments:*

*Private Equity and Hedge Funds tick upward*

- Despite net redemptions, hedge fund assets near record highs
- Event-driven and energy funds strongest performers
- Private equity incentives up slightly; stable performance and record asset levels
- Healthy fundraising; several mega buyout funds raised in US

### *Investment and Commercial Banking:*

*Banks continue downward trend*

- Equity trading falls further on low client activity levels while fixed income trading flat to down slightly
- Underwriting down broadly from strong 2018; debt underwriting outperformed equity significantly
- Emphasis on private banking and retail platforms; heavy digital investment
- Net interest margins compressed by falling rates

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# Projected 2019 Incentive Funding

- *Headcount-adjusted basis (i.e. felt impact)*

### *Traditional Asset Management & Alternatives*

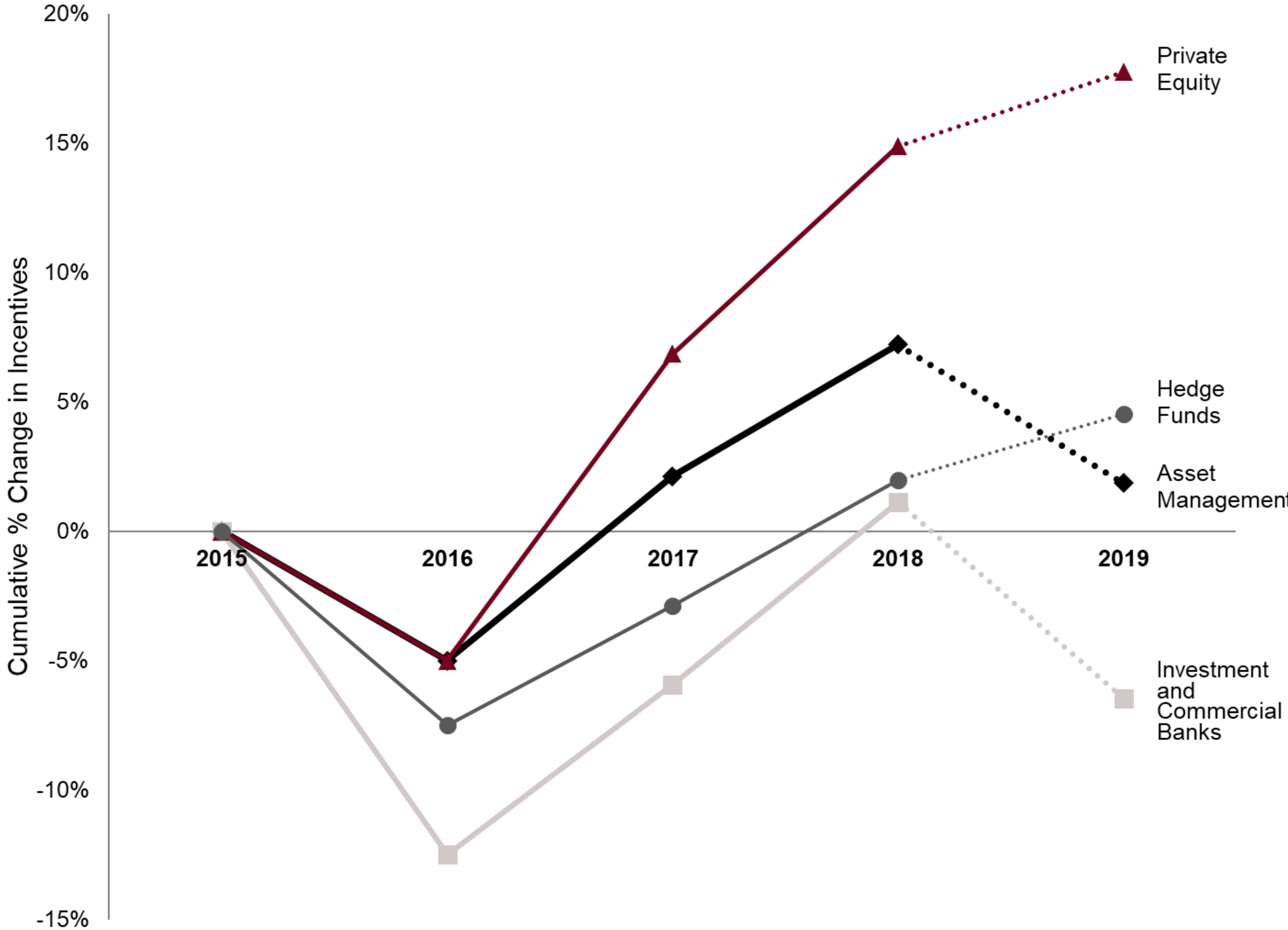
| Business/Area | % Change from 2018 |
|---|---|
| **Asset Management**<br>*Revenues fall slightly on product-shift (passive, fixed income) but market appreciation buoys AUM* | **0% to -5%** |
| **Hedge Funds**<br>*Despite net redemptions, near-record capital levels* | **0% to 5%** |
| **Private Equity**<br>*Domestic fundraising healthy as funds hope for bargains in 2020* | **0% to 5%*** |
| **High Net Worth**<br>*AUM growth but on lower fee base, revenues up slightly while expenses increase in technology* | **Flat** |

*Applies to incentive and equity, excludes carry

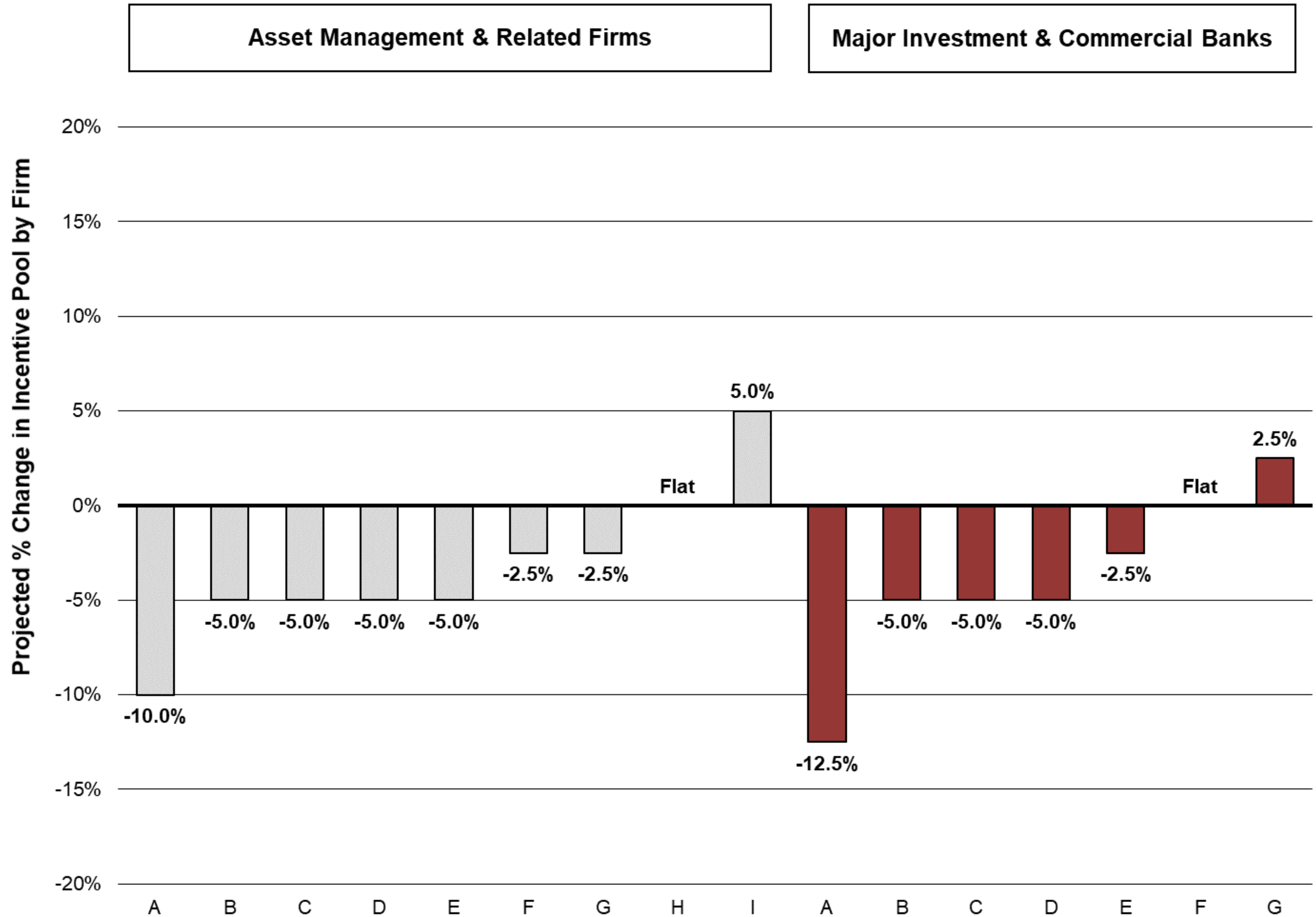
### *Investment & Commercial Banking*

| Business/Area | | % Change from 2018 |
|---|---|---|
| **Firm Management/Staff Positions**<br>*Generally, moves in line with entire firm* | | **-5% to -10%** |
| **Investment Banking**<br>*Underwriting down broadly after strong 2018 (Debt outperformed Equity); Wide variance in Advisory results* | **Advisory**<br>**Underwriting** | **0% to 5%**<br>**-5% to -10%** |
| **Sales & Trading**<br>*Equity trading down broadly on low volatility and client activity while fixed income trading performed better* | **Equities**<br>**Fixed Income** | **-10% to -15%**<br>**0% to -5%** |
| **Retail & Commercial Banking**<br>*Falling rates compressed net interest margins* | | **Flat** |

# Incentive Trend by Business Segment



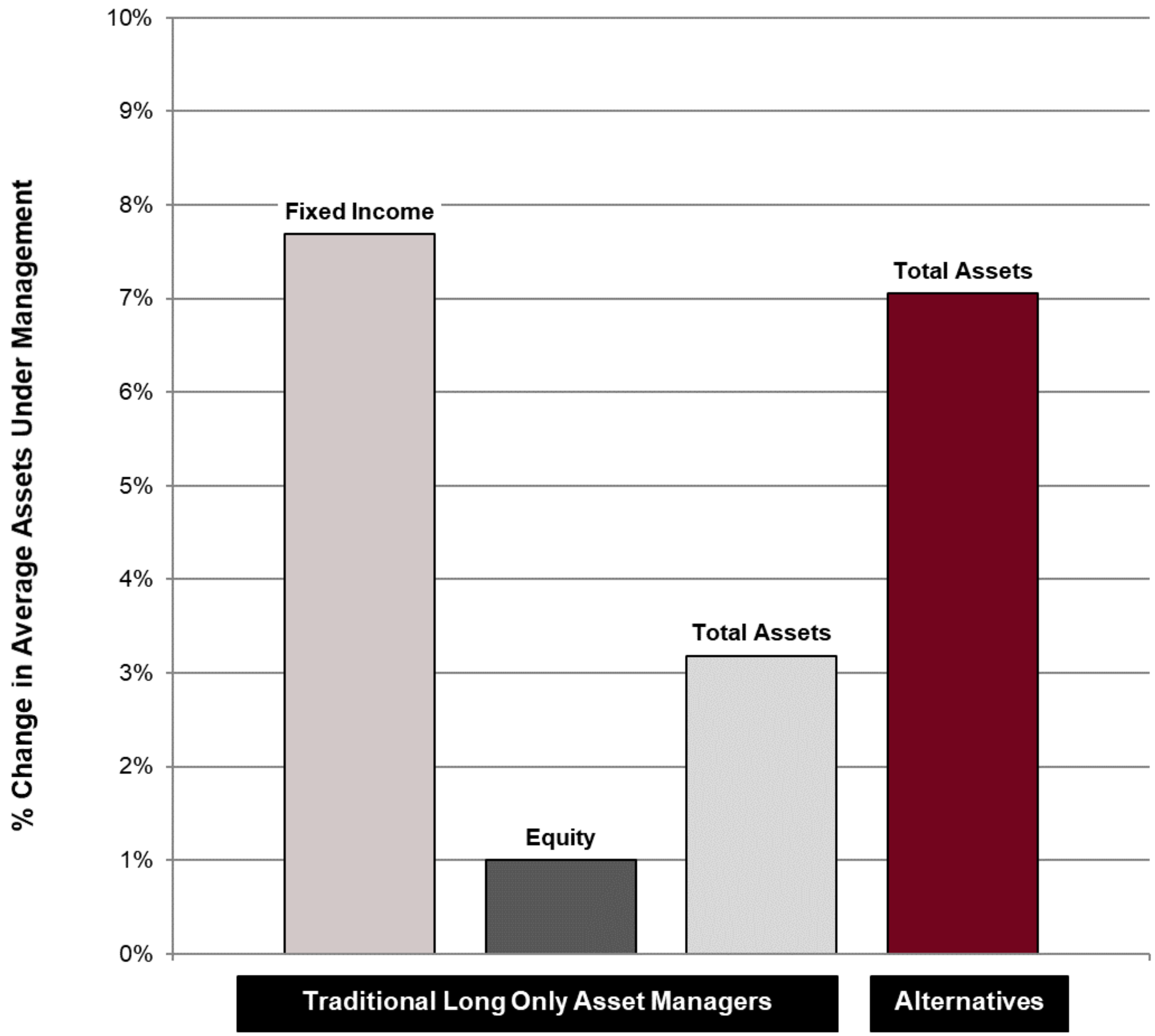
## Projected % Change in Year-End Incentive Pool by Firm*




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

## Percent Change in Assets Under Management

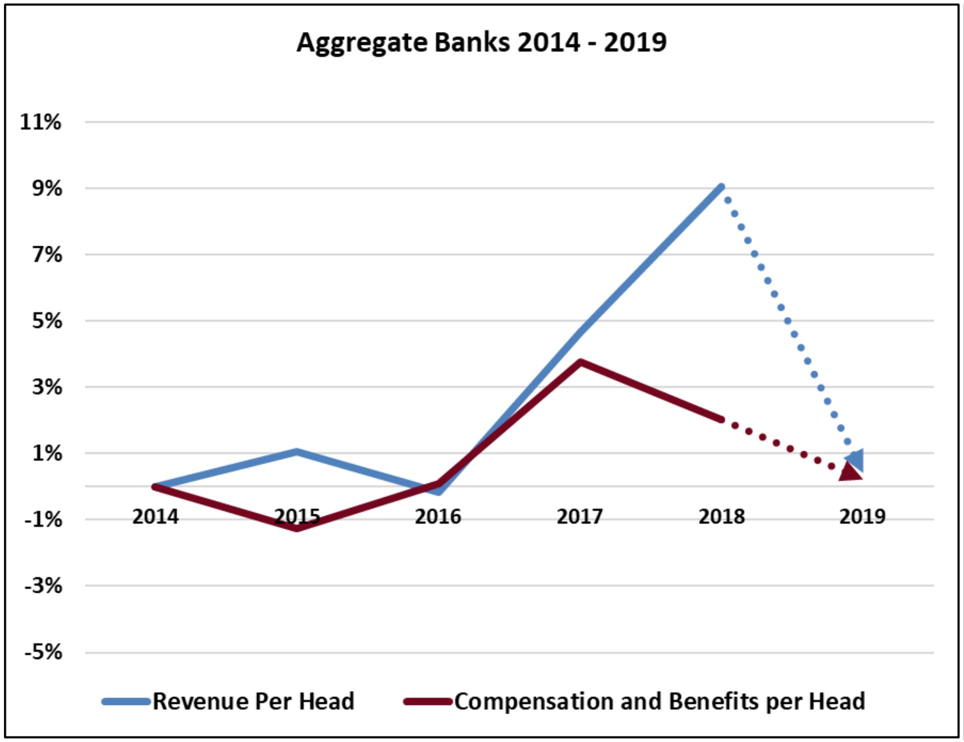
- Data represents average percentage change in average assets under management for 2019 YTD compared to the full year 2018 average, for traditional long only (6 select firms) and alternatives (7 select firms)

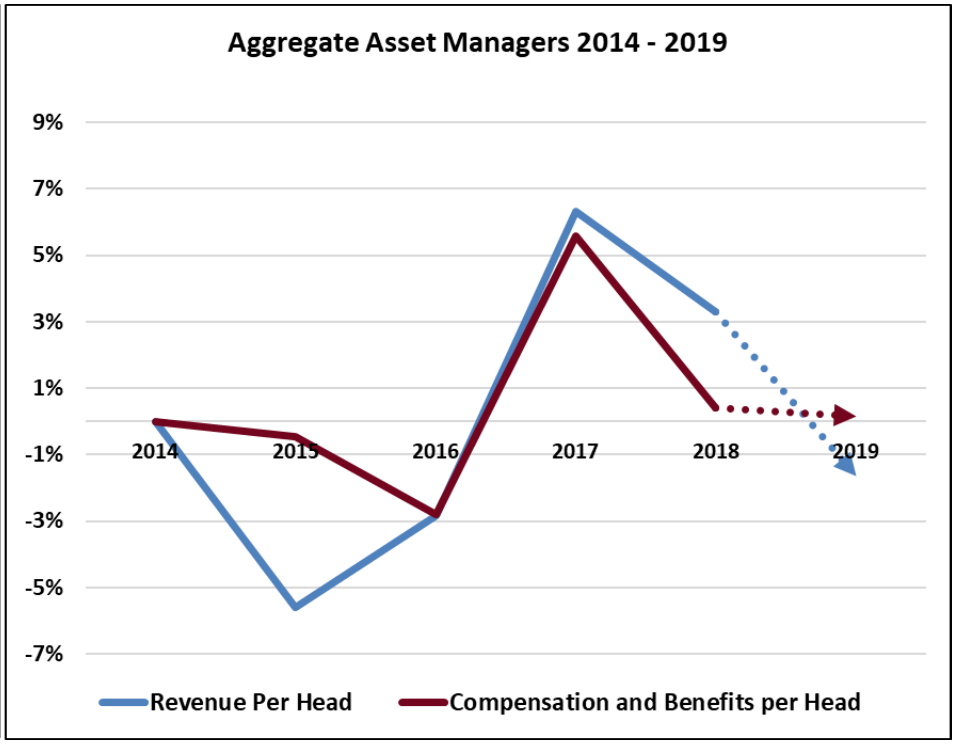


## Year-over-Year Aggregate Changes Per Head

- Tracks aggregate yearly change for investment and commercial banks (6) and traditional long-only asset managers (9) from 2014-2019

- Driven primarily by technology initiatives, commercial banks with large retail presence methodically cutting headcount. Additionally, some asset managers over-hired during strong performance years and experiencing layoffs as revenues fall



## Analyst Estimated EPS Trend

- 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 firms

***2019 EPS Estimate Trend***