JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
First Quarter Trends and Year-End Projections 5/16/16

After the first quarter, Johnson Associates broadly projects lower incentive compensation across financial services. Incentive compensation for asset management is projected to decrease modestly. For major investment & commercial banking firms, incentive compensation is broadly projected to be down across most businesses. Mix of business, market activity, U.S. election year, 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
- Lower average AUM levels on market depreciation, along with flat or negative flows
- Fixed income funds outperforming equities
- Continued trend to passive/index products and fee pressures for actively managed funds
- Expect cost cutting and headcount constraints

Alternatives:

Hedge Funds Continue Negative Trend

- Hedge fund results continue negative trend of past couple years, with challenging first quarter and outflows for underperforming funds
- Private equity incentives down modestly as market turmoil weighs on portfolio valuations/realizations
- Investors continue to flock to 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 expected to decline on difficult market conditions and reduced activity
- Retail and commercial banking up slightly on solid deposits and loan growth
- Focus on cost cutting with significant layoffs as banks announce strategy shifts

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)** *Lower average AUM on market depreciation and flows generally flat or negative. Fixed income funds outperforming equities*	**-5% to -10%**
Hedge Funds (Independent and Captive) *Outflows and challenging first quarter performance*	**-5% to -15%***
Private Equity *Market turmoil in the first quarter weighed on portfolio valuations and made realizations more difficult*	**-5%**
High Net Worth *Assets generally more stable*	**-5%**

*Applies to incentive and equity, excluding carry

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. Exception for in demand functions such as regulatory, compliance, risk, and high-end technology related areas where firms are upgrading talent*		**-10% to -15%**
Investment Banking *Industry-wide completed activity lower, most significantly in equity underwriting*	**Advisory** **Underwriting**	**-10% to -15%** **-15% to -20%**
Sales & Trading *Lower levels of client activity and difficult market conditions across most businesses*	**Equities** **Fixed Income**	**-5% to -15%** **-15% to -20%**
Retail & Commercial Banking *Solid deposit and loan growth*		**0% to +5%**

2016 Hot Topics

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 and discretion to recognize team sales, avoid windfalls, reward qualitative behavior etc.)
  - Impact of the DOL fiduciary rule not yet seen; could profoundly influence the structure of sales compensation
- 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

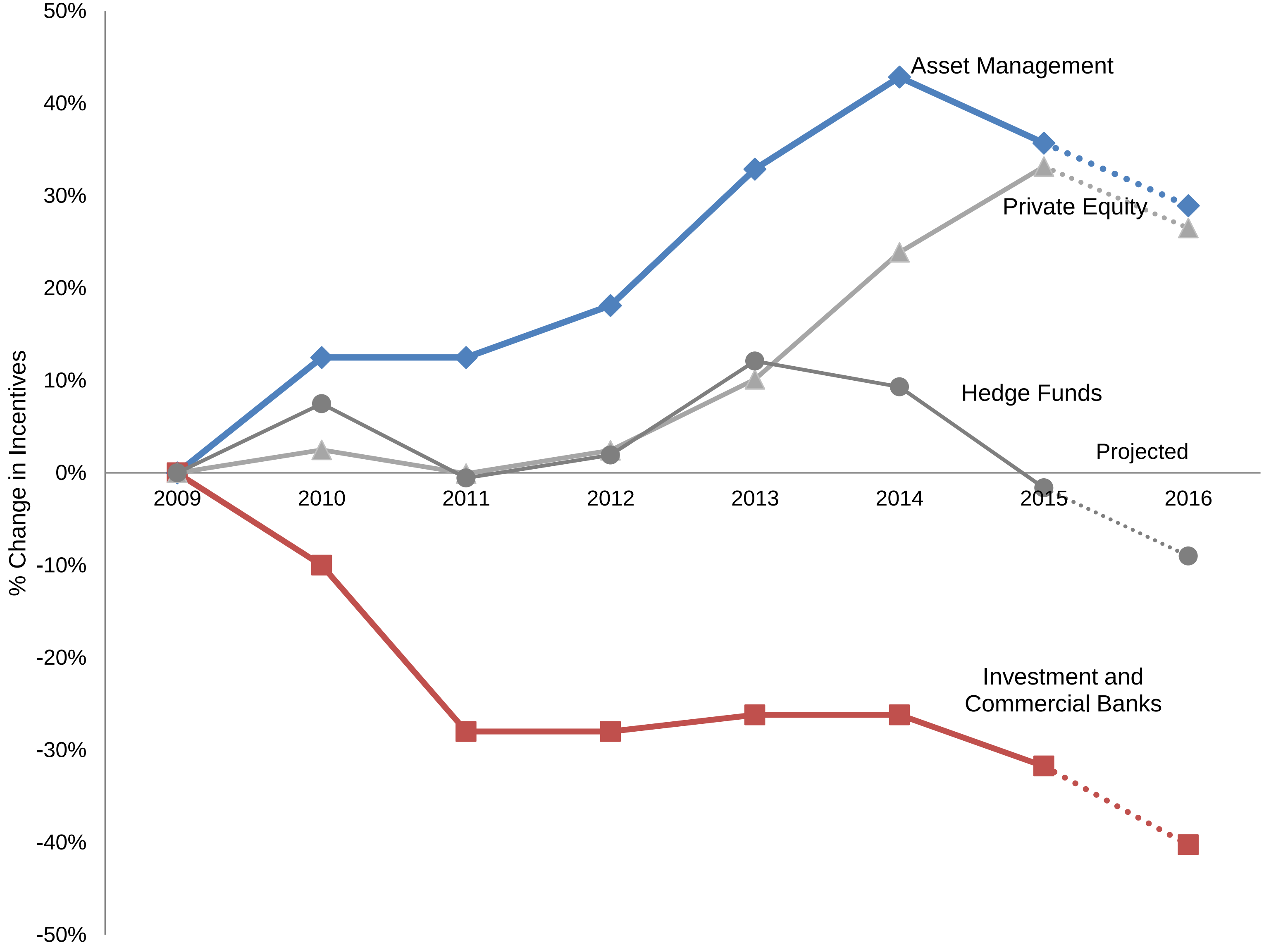
- Layoffs expected to continue across financial services, most significantly in banking, but also in asset management and alternatives. Also expect constrained hiring
- Turnover should be more managed. Need a plan, or goal/target tied to compensation decisions and performance (increased differentiation)
- 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 approach to benchmarking
- 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

Regulation

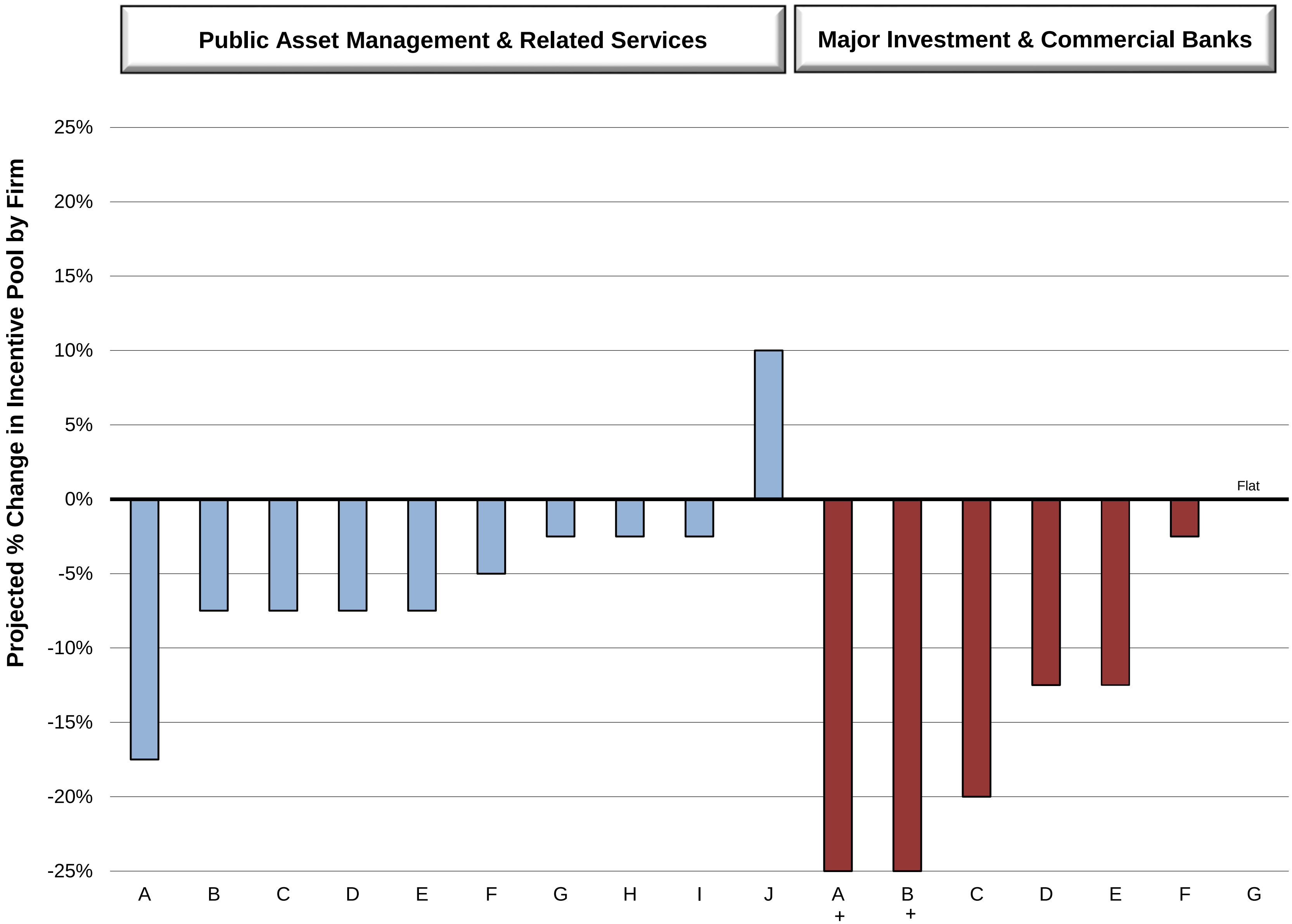
- Proposed U.S. pay guidelines published; target implementation date mid 2018 for future performance periods (2019 most likely impact)
- Prohibits incentives that encourage inappropriate risks. Requires documentation maintained for 7 years
- Depending on assets (excluding client assets), requires deferrals 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



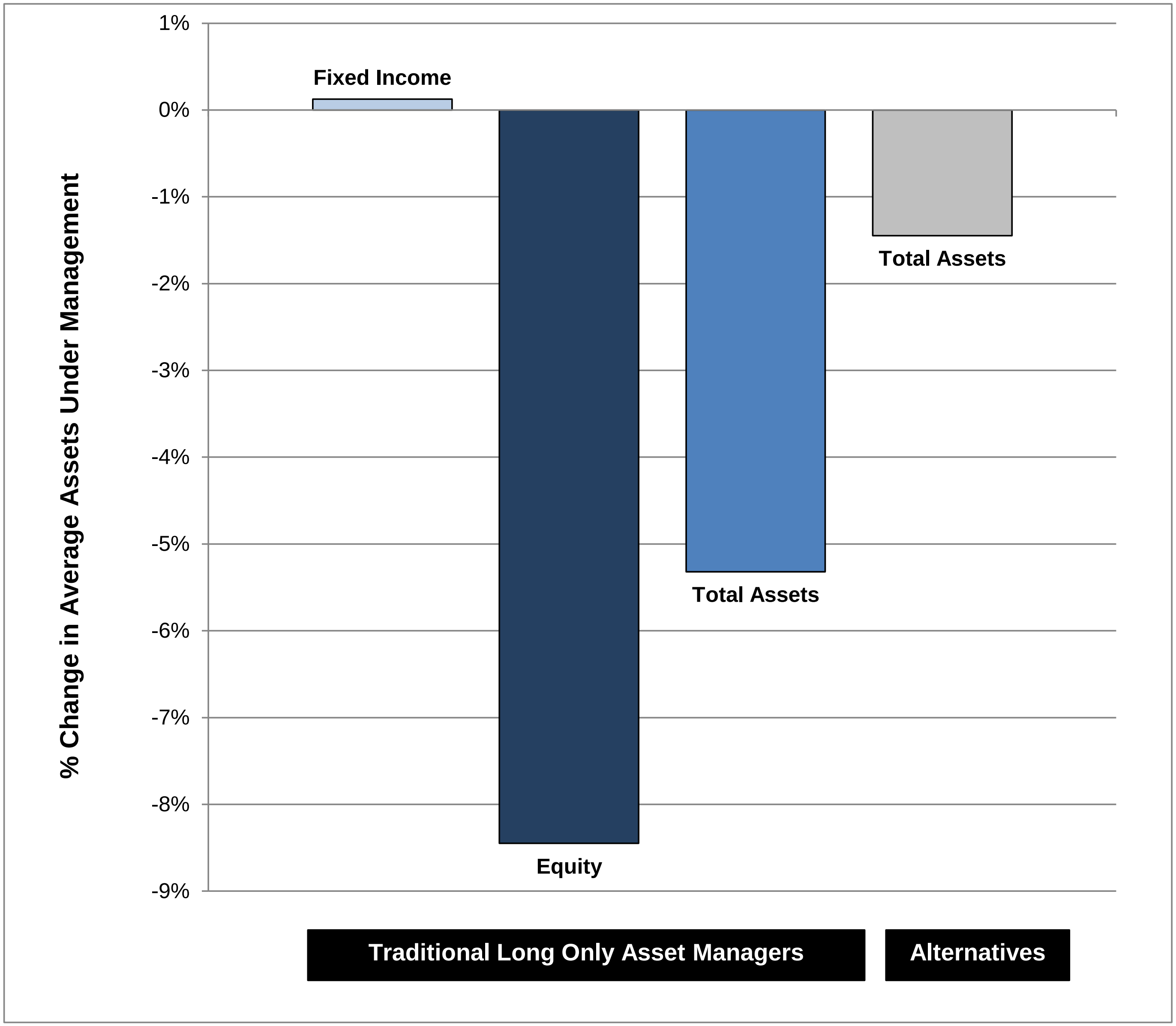
Projected % Change in Year-End Incentive Pool by Firm*



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

Percent Change in Assets Under Management

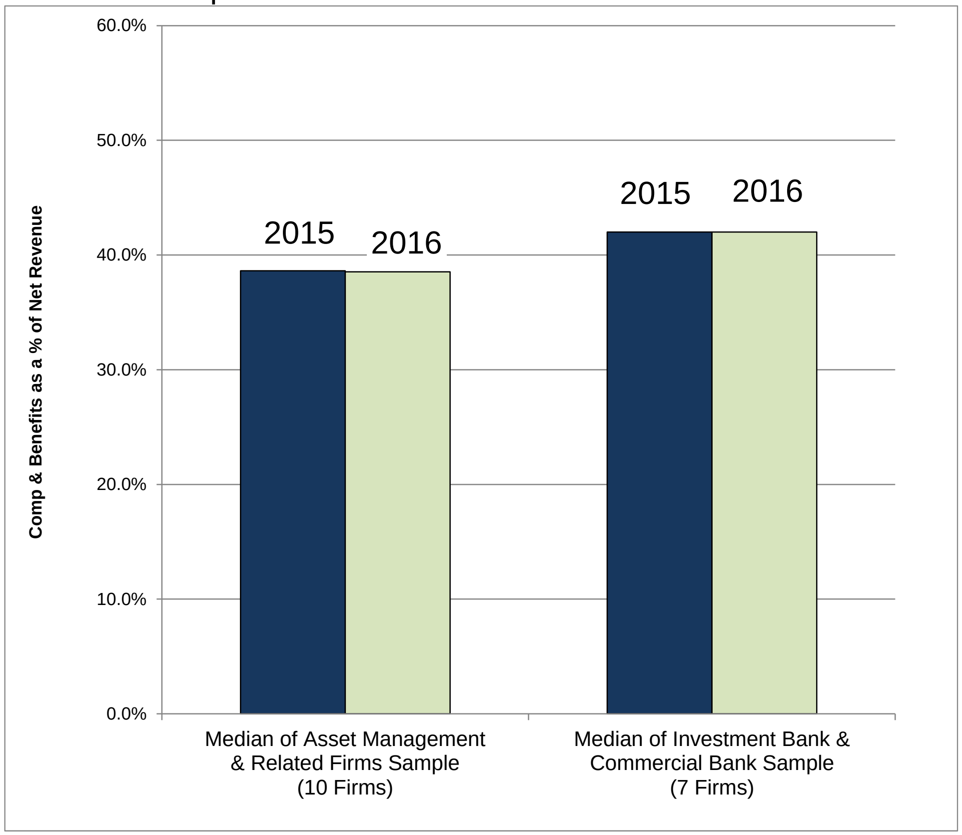
- Data represents median percentage change in average assets under management for three months 2016 compared to average full year 2015**,** for traditional long only (6 select firms) and alternatives (7 select firms)



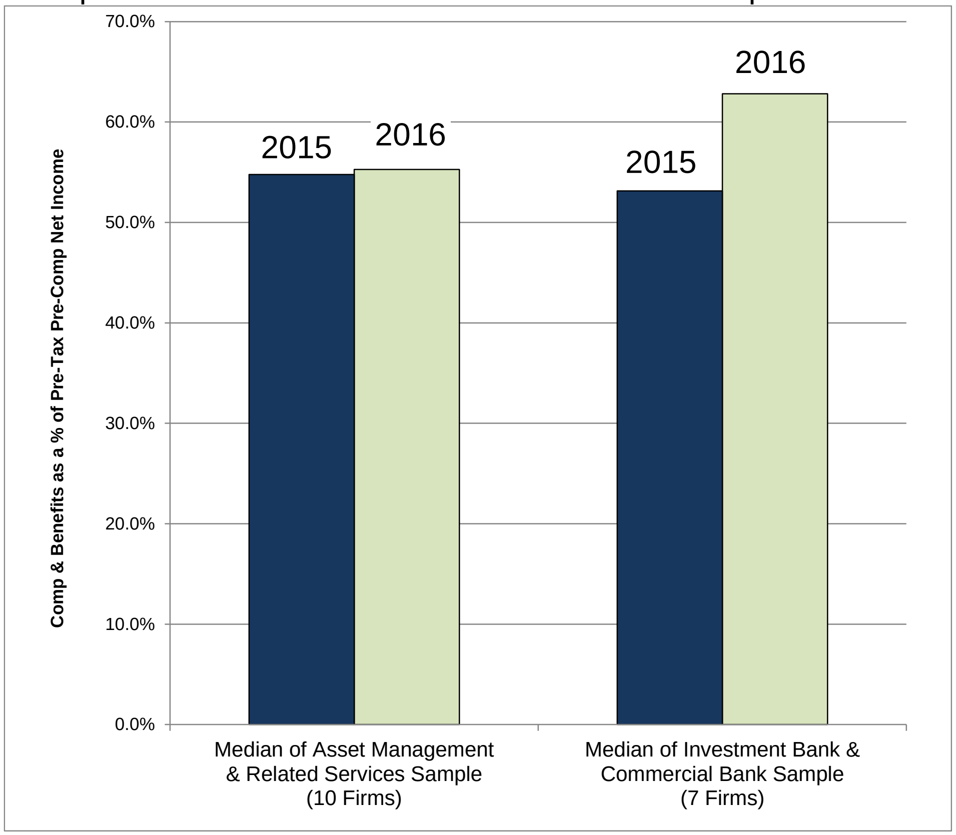
Year-to-Date Compensation & Benefits Ratios

- 3M 2015 v. 3M 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 four months into the fiscal year, analyst estimates reflect a deteriorating 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