JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
First Quarter Trends and Year-End Projections — 5/15/15

After the first quarter, Johnson Associates projects modestly increasing incentive compensation across financial services. Incentive compensation for traditional asset management is again projected to increase, albeit modestly, while alternatives is projected to increase more substantially. For major investment & commercial banking firms, incentive compensation is projected to be broadly flat. Mix of business, market activity, and ongoing uncertainty in world markets continue to be key 2015 incentive drivers.

Asset Management:

Asset management to have another positive year

- Incentives up modestly on small increases in average assets under management
- AUM increases primarily on market appreciation and flows, in both equity and fixed income
- Low cost alternatives (Indexing, ETFs, etc.) put pressure on fees. Hasn't had significant impact to date but on the horizon

Alternatives:

Projected to outperform

- Hedge fund results positive on increasing assets and improving performance across strategies
- Private equity incentives up on increased realization activity and strong fundraising
- Large funds gain greater proportion of new assets
- Investors continue to turn to alternatives seeking returns

Investment and Commercial Banking:

Projected broadly flat with variation by business

- Business mix impacts overall firm results
- M&A up meaningfully, partially offset by mixed underwriting results
- Stronger trading results, with incentives expected to be up moderately
- Retail and commercial banking flat to up slightly on modest deposits and loan growth
- Fee based businesses continue to be emphasized over traditional trading/capital intensive businesses, most significantly in Europe

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

Projected 2015 Incentive Funding

- *Headcount-adjusted basis*

Traditional Asset Management & Alternatives

Business/Area	% Change from 2014
Asset Management **(Independent and Captive)** *Moderate increase in AUM on flows and market appreciation. Lag effect of AUM boosts incentives*	**0% to +10%**
Hedge Funds (Independent and Captive) *Increasing assets under management and improving performance across strategies*	**+5% to +10%***
Private Equity *Increased realization activity and strong fundraising. Large funds consistently exceeding fundraising targets. Increasing number of Real Estate funds and flows to largest funds, as sector seen as greater potential for growth off of lows*	**+10% to +15%***
High Net Worth *Assets generally more stable*	**0% to +5%**

Investment & Commercial Banking

Business/Area		% Change from 2014
Firm Management/Staff Position *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, and risk related areas*		**-5% to +5%**
Investment Banking *Industry-wide completed M&A activity higher. Underwriting results mixed, with equity underwriting results generally better than debt underwriting*	**Advisory** **Underwriting**	**+10% to +15%** **-5% to +5%**
Sales & Trading *Higher level of client activity. Stronger results across equities products and mixed results across fixed income products with increased market volatility* *Current estimates reflect conservative projections due to historically stronger first quarter; full-year results and continued market improvement remain to be seen*	**Equities** **Fixed Income**	**+5% to +15%** **0% to +10%**
Retail & Commercial Banking *Credit trends continue to be favorable. Modest deposit and loan growth*		**0% to +5%**

*Applies to incentive and equity, excluding carry

2015 Hot Topics

Plan Design and Implementation

Alignment

- Enormous focus on alignment
  - Structured pay common at alternative firms through carried interest allocations and/or individual/team deals
  - Employee demand for less discretion and more "deals" (not always a good idea), as track records improve
  - Ownership at private firms more valuable and in demand; increasing number of equity/profit sharing programs
  - Pay being earned over longer time periods, through vesting and longer term vehicles (carry, equity, etc.)
  - Banks have fewer levers to provide aligned economics

Firm Protections

- Focus on alignment through individual/team deals, ownership, etc. has led to increased use of restrictive covenants (non-compete, non-solicit provisions)

Sales Compensation

- Sales compensation remains in focus
  - Increased use of hybrid approach (combination of formula and discretion) to limit windfalls and supplement bottom, as well as to promote cross-selling and other business objectives

Market Environment Trends

Talent Market & Culture

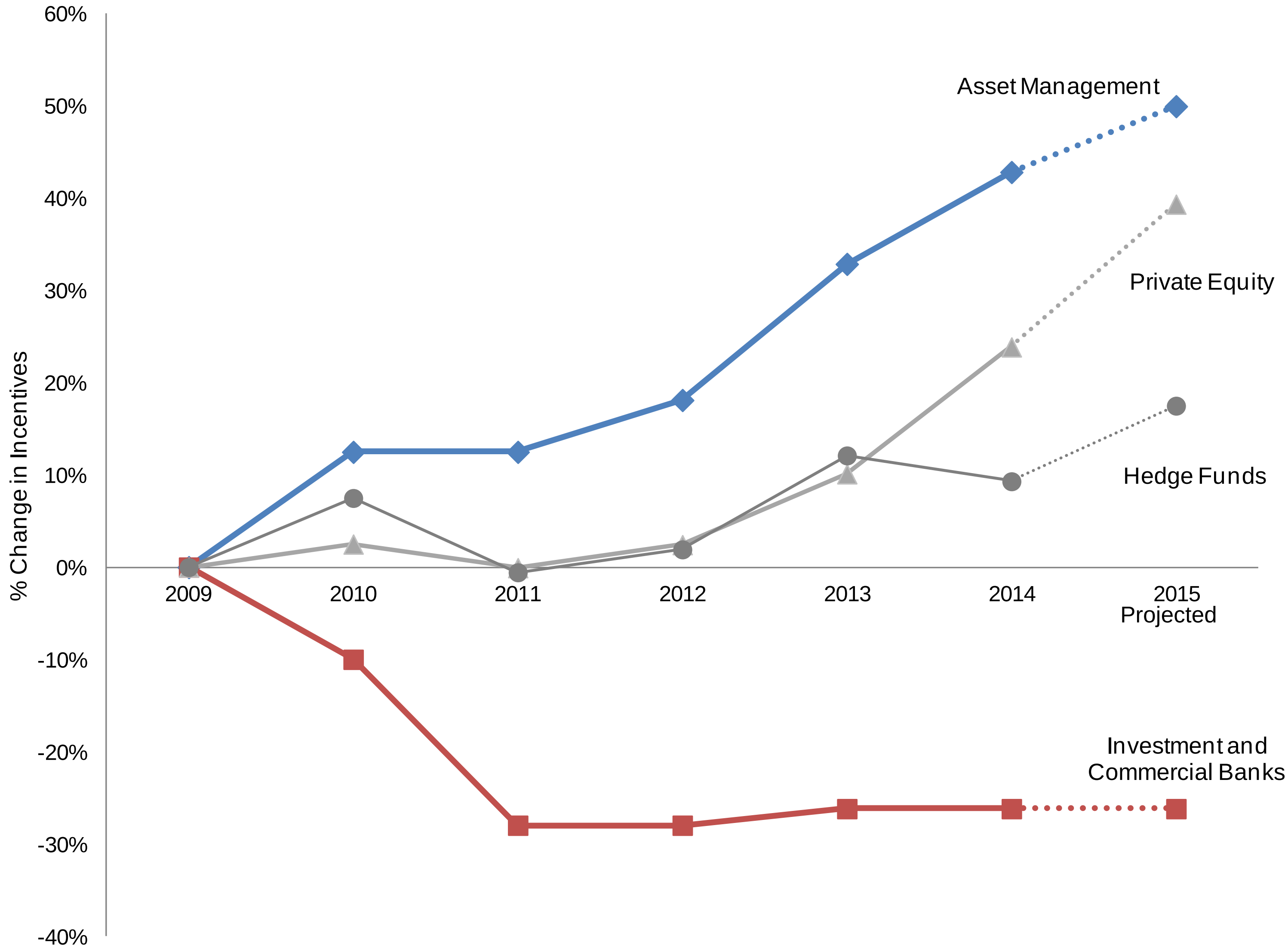
- Continued pressure to leave banks; turnover would be higher if asset management/alternatives could meet the demand
- Banks no longer highest paying/most prestigious job for top talent
  - Silicon Valley preeminent employer for technology jobs; exception is technology driven hedge funds
- Continued difficulties paying young people at places with rigid structures; firms with pay flexibility have advantage
- Culture of increased importance and potential competitive advantage for small and mid-size firms

Regulation

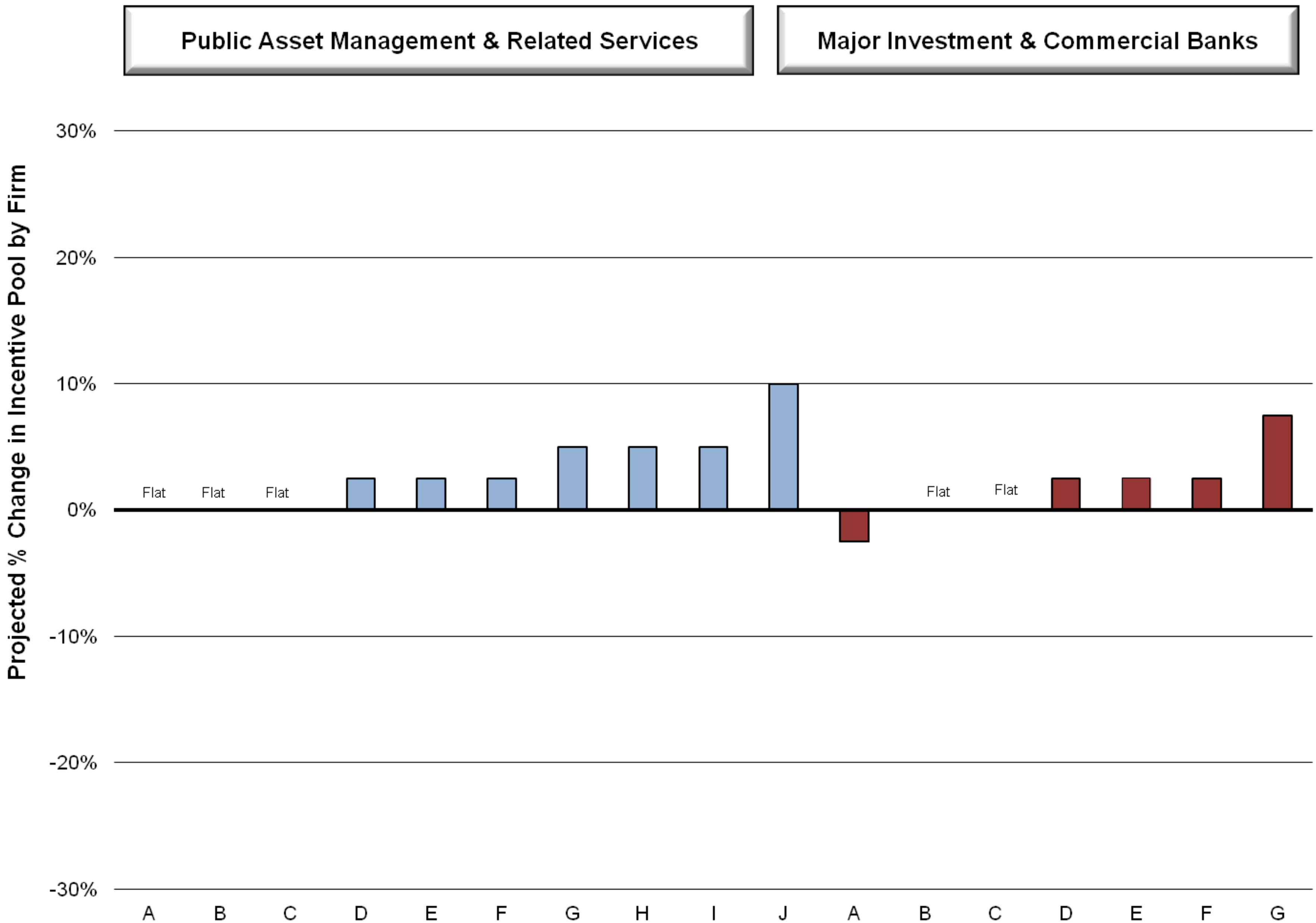
- Dodd-Frank pending provisions:
  - Pay Versus Performance pending requirement: disclose CEO and average of other NEO pay, 5 year TSR (company and peer group), and description of relationship between pay/TSR, and company/peer group TSR. Implementation likely in near future
  - CEO Pay Ratio proposed requirement to disclose total pay of CEO, median employee, and the ratio. Continue challenges for implementation
- European Banking Authority pending provisions:
  - Variable pay caps proposed to include broader group
  - Additional clarity on variable versus fixed compensation (calling into question usage of role based allowances)

Incentive Trend and Ramifications

- Incentives generally expected to continue on moderately positive trajectory across financial services
- Asset management and alternatives pay continues to increase while investment and commercial banks remain broadly stable



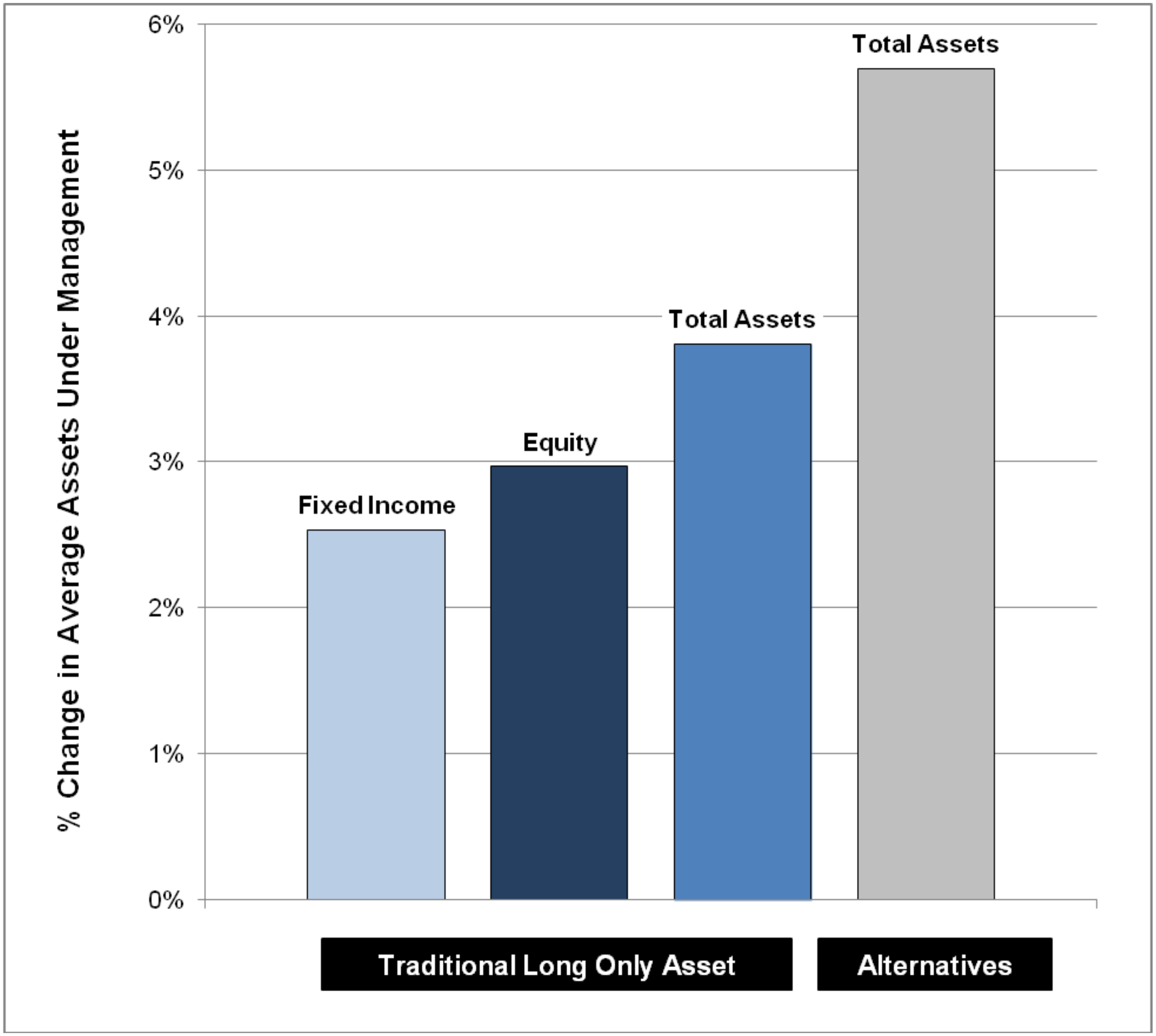
Projected % Change in Year-End Incentive Pool by Firm*



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

Percent Change in Assets Under Management

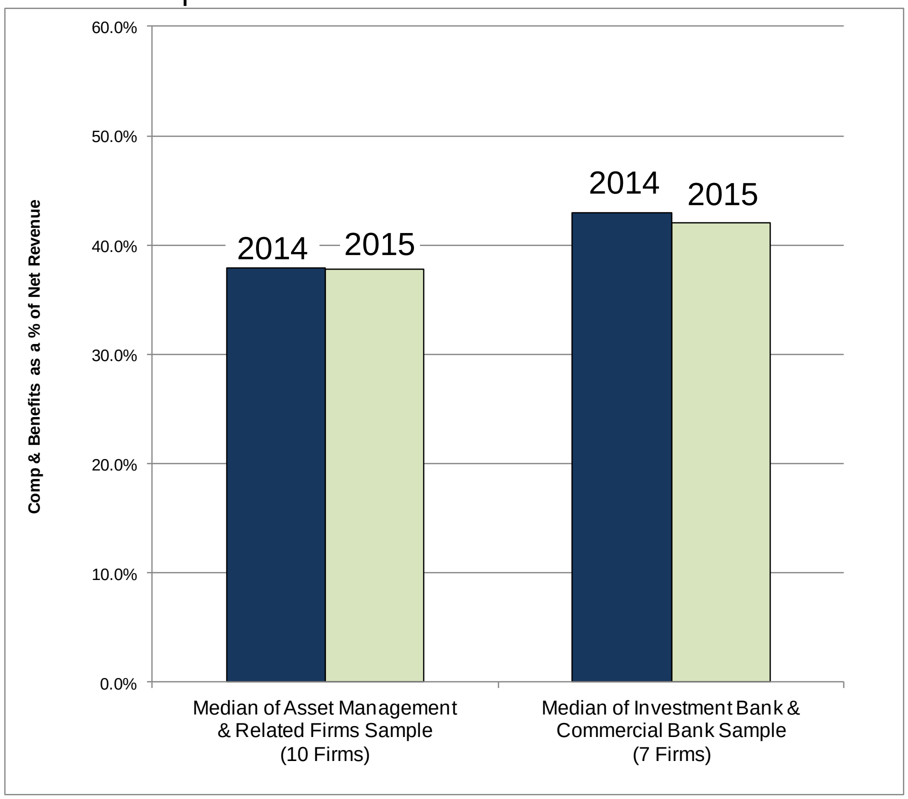
- Data represents median percentage change in average assets under management for first quarter 2015 compared to average full year 2014, for traditional long only (6 select firms) and alternatives (7 select firms)



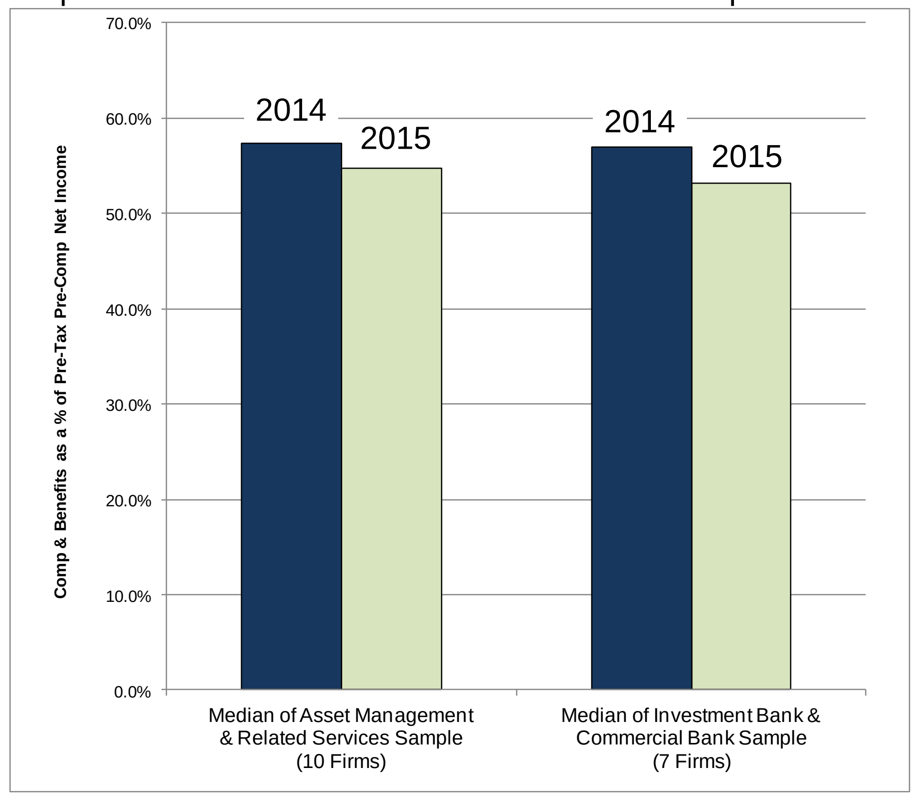
Year-to-Date Compensation & Benefits Ratios

- 3M 2014 v. 3M 2015 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 stable asset management outlook and a more positive investment and commercial banking outlook
- Chart reflects a sample of 6 investment and commercial banks and 10 asset management and related services firms