JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
Second Quarter Trends and Year-End Projections 8/10/15

After the second quarter, Johnson Associates projects broadly flat incentive compensation across financial services. Incentive compensation for asset management is again projected to increase, albeit modestly, with private equity outperforming hedge funds and traditional funds. For major investment & commercial banking firms, incentive compensation is projected to be flat with significant variation by business area. Mix of business, market activity, and ongoing uncertainty in world markets continue to be key 2015 incentive drivers.

Traditional Asset Management:

Asset management projected up modestly

- Incentives up modestly (or flat) on small increases in average assets under management
- Second quarter performance mixed, but generally net outflows and market depreciation in both equity and fixed income
- More traditional managers are adding product offerings in alternatives, as investors seek returns in a low rate environment and diversity in their portfolios

Alternatives:

Private Equity projected to outperform

- Hedge fund results varied on increasing assets but mixed performance across strategies
- Private equity incentives up on increased realization activity and strong fundraising
- Large funds gain greater proportion of new assets
- Investors continue in alternatives seeking returns, with many funds reaching initial fundraising caps as demand outpaces fund size

Investment and Commercial Banking:

Projected broadly flat with variation by business

- Business mix impacts overall firm results
- M&A up significantly, partially offset by mixed but generally negative underwriting results
- Trading incentives expected to be mixed, with equities up modestly and fixed income varied by product but generally negative
- 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

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Projected 2015 Incentive Funding

- *Headcount-adjusted basis*

Traditional Asset Management & Alternatives

Business/Area	% Change from 2014
Asset Management **(Independent and Captive)** *Lag effect of AUM provides modest boost to incentives, but mixed performance in second quarter with flows generally flat or negative and market depreciation*	**0% to +5%**
Hedge Funds (Independent and Captive) *Hedge fund results varied on increasing assets but mixed performance across strategies*	**0% to +5%***
Private Equity *Increased realization activity and strong fundraising, but market conditions became more challenging in the second quarter impacting some valuations. Large funds consistently exceeding fundraising targets*	**+10% 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 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 where firms are upgrading talent*		**-5% to 0%**
Investment Banking	**Advisory** **Underwriting**	**+10% to +20%** **-10% to 0%**
Industry-wide completed M&A activity higher. Underwriting results mixed but generally negative, with debt underwriting results down more than equity underwriting		
Sales & Trading	**Equities** **Fixed Income**	**0% to +10%** **-10%+ to 0%**
Higher level of client activity and moderately stronger results in equities products offset by mixed but broadly negative results across fixed income products		
Retail & Commercial Banking *Credit trends continue to be favorable. Modest deposit and loan growth*		**0% to +5%**

2015 Hot Topics: Featured New Trends & Continuing Trends

- *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

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

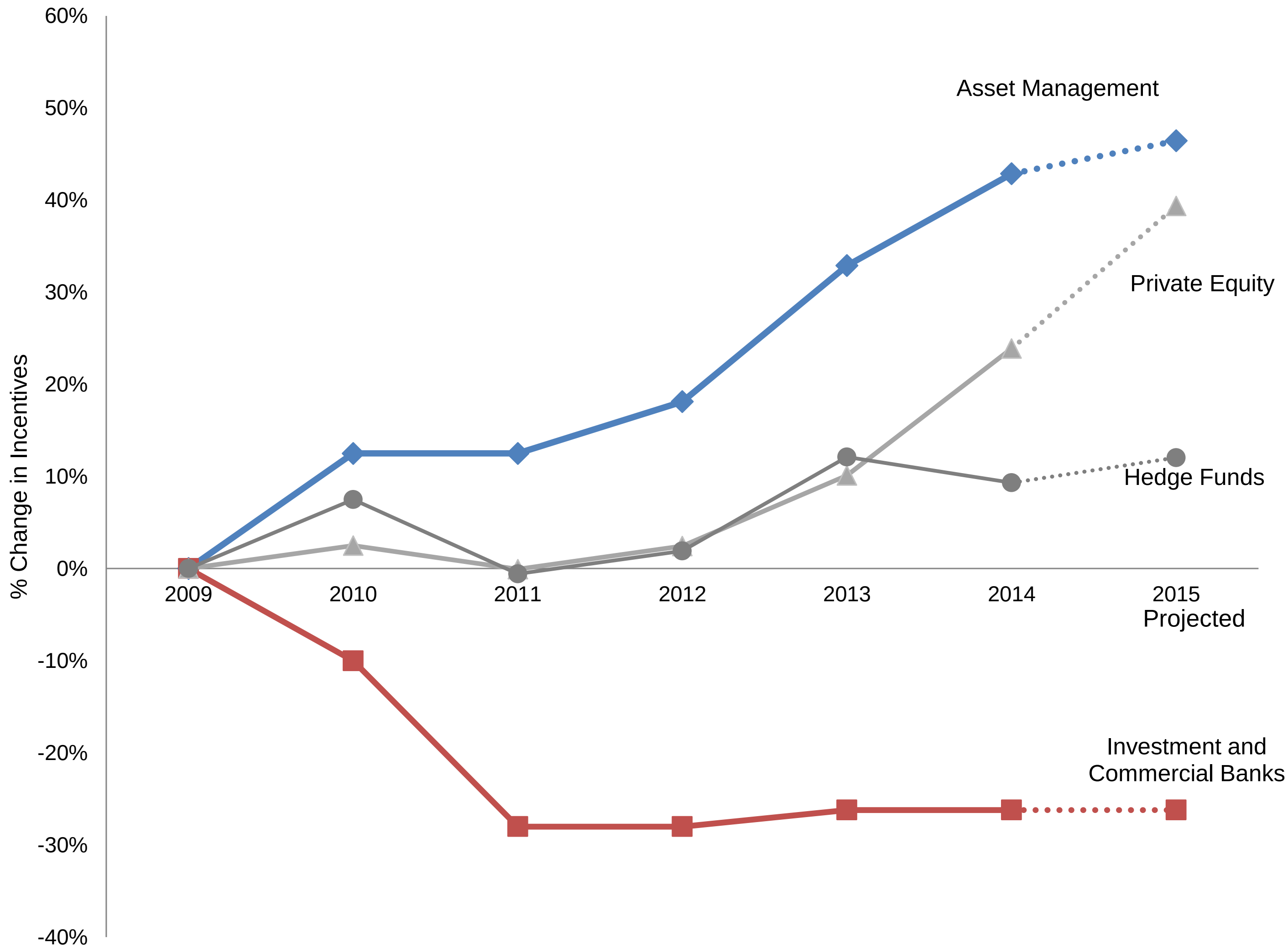
- ***Clients continue to be dissatisfied with traditional pay surveys, and are seeking a more thoughtful, nuanced approach. Have become less helpful in hot areas where firms are upgrading talent (e.g., legal, compliance, risk), as firms replacing a mid-level position with a senior incumbent is not reflected in surveys***
- ***Compensation levels and structure are adjusting in Europe, as banks continue to de-emphasize trading/capital usage and focus on client businesses***
- ***Silicon Valley new draw for talent***
- Continued difficulties paying young people at places with rigid structures; firms with pay flexibility have advantage
- Culture of increased importance and potential competitive advantage

Regulation

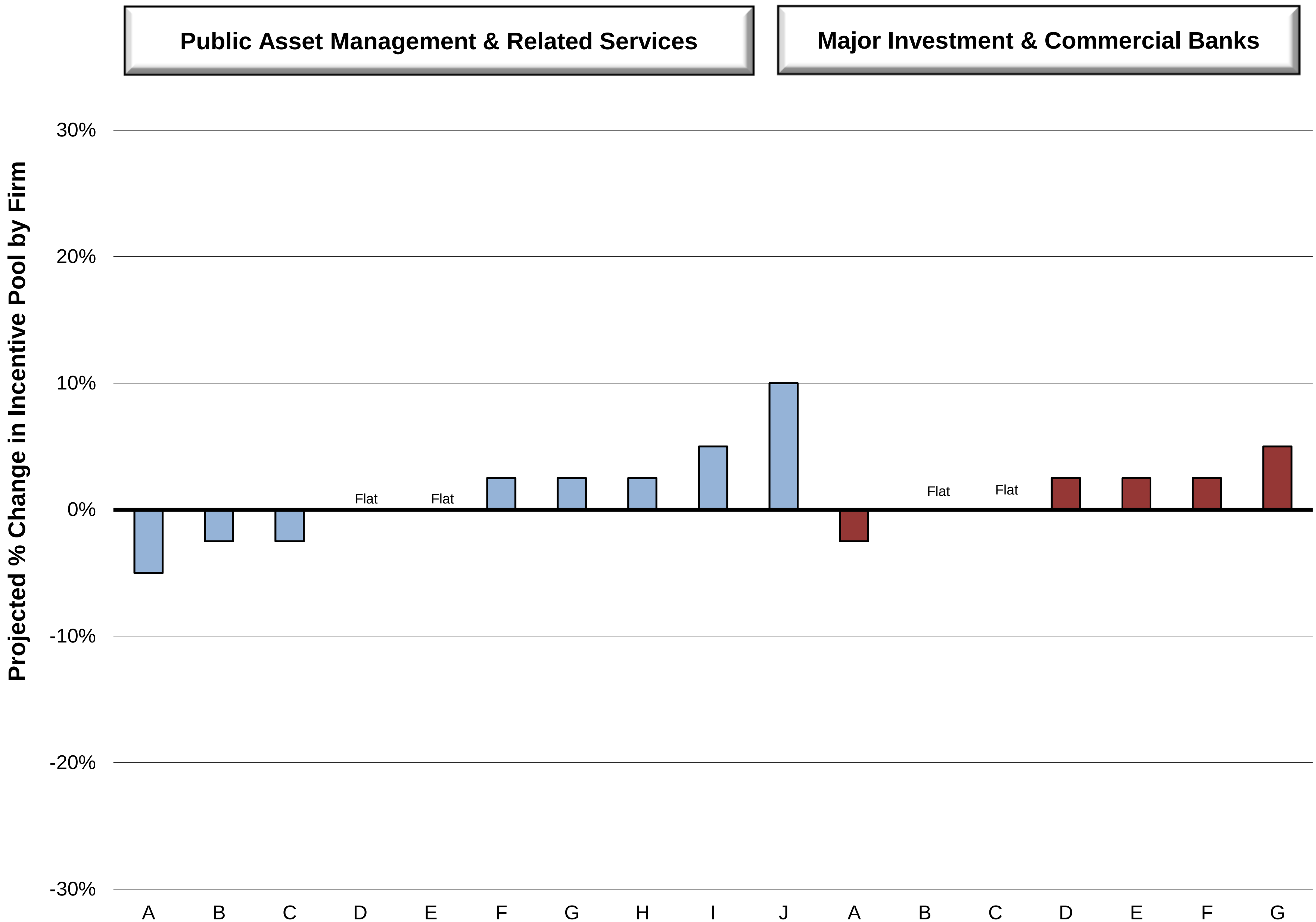
- Dodd-Frank pending provisions:
  - Pay Versus Performance pending requirement: disclose CEO and average of other NEO pay, 5 year TSR (company and peer group), and description of relationship between pay/TSR, and company/peer group TSR
  - CEO Pay Ratio proposed requirement to disclose total pay of CEO, median employee, and ratio
- European Banking Authority pending provisions:
  - Variable pay caps proposed to include broader group. ***Proprietary trading and other small financial firms increasingly concerned they may get caught up in bonus cap regulations***
  - 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 a flat or moderately positive trajectory across financial services
- Client focused fee-based businesses continue to outperform



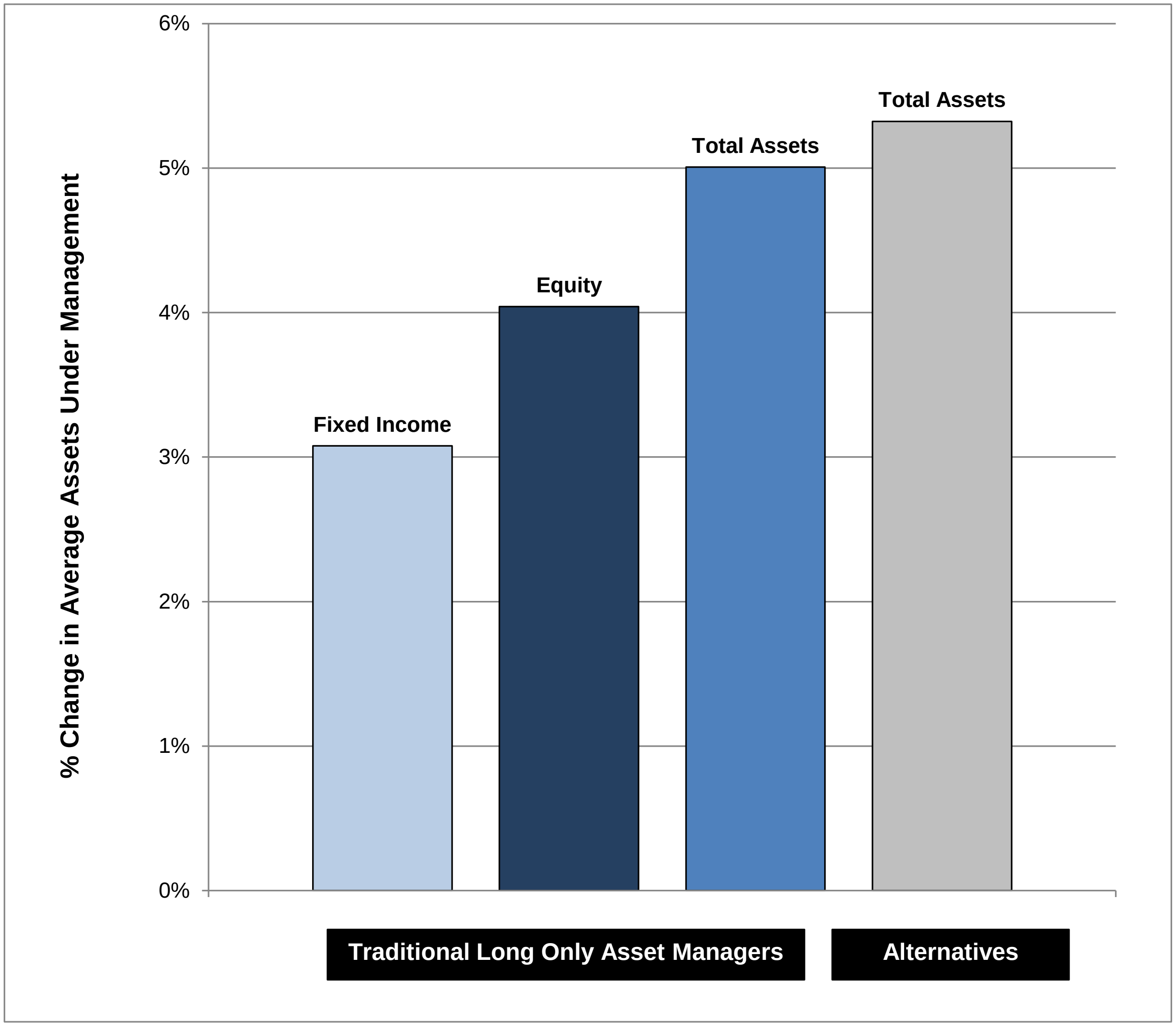
Projected % Change in Year-End Incentive Pool by Firm*



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

Percent Change in Assets Under Management

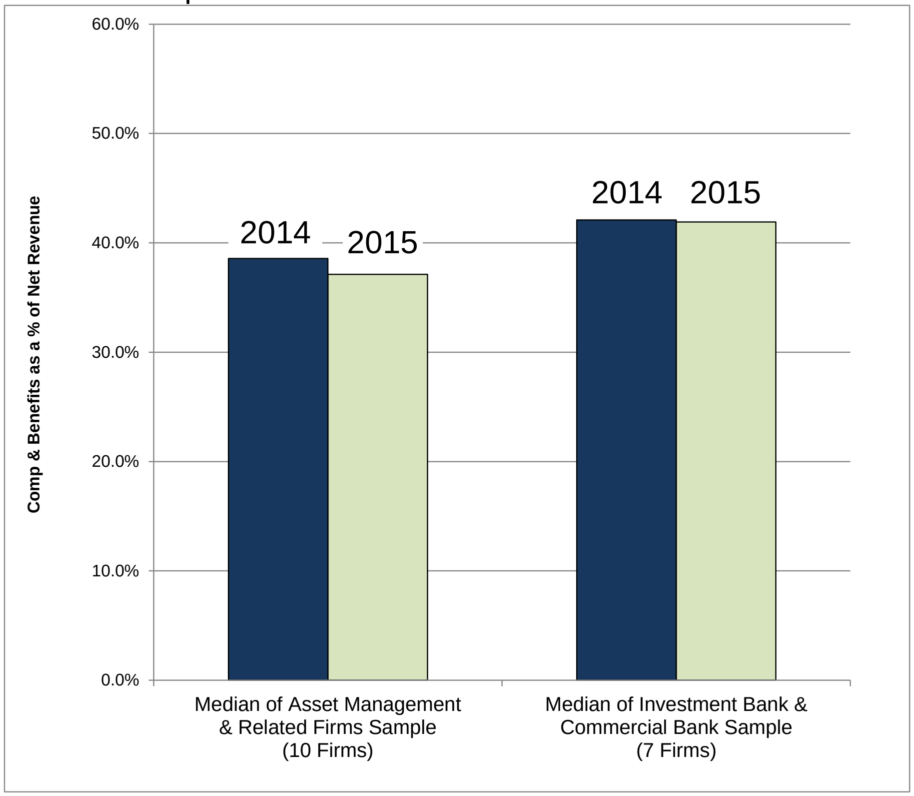
- Data represents median percentage change in average assets under management for first half 2015 compared to average full year 2014, for traditional long only (6 select firms) and alternatives (7 select firms)



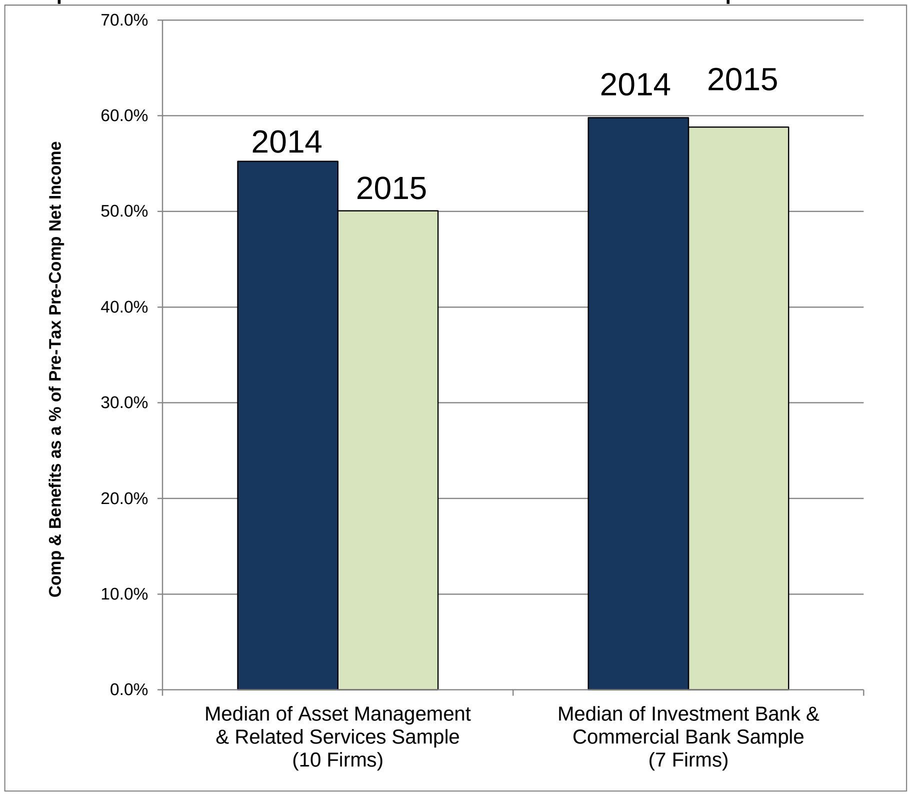
Year-to-Date Compensation & Benefits Ratios

- 6M 2014 v. 6M 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 seven months into the fiscal year, analyst estimates reflect a generally stable outlook across asset management and investment & commercial banks
- Chart reflects a sample of 6 investment and commercial banks and 10 asset management and related services firms

2015 EPS Estimate Trend