

**JOHNSON ASSOCIATES**  
**FINANCIAL SERVICES COMPENSATION**  
**Second Quarter Trends and Year-End Projections**

**8/3/18**

*After the second quarter, Johnson Associates projects broad increases in incentive compensation across financial services. Incentive compensation for asset management is expected to be up moderately. Major investment & commercial banking firms saw substantial growth in trading and equity underwriting. Headcount changes reflect technology investment and cost cutting. Headcount increases linked to selective hiring by business line as opposed to broad based employee growth. Geopolitical uncertainty and market volatility are key 2018 incentive wildcards.*

***Traditional Asset Management:***

*Strong top line growth at major firms*

- Incentives trending upward but momentum slowing
- Stable flows in largest firms with lowest fees, outflow problems for ancillary competitors
- Margins fall as low-fee products dominate the space
- Passive and ETF investments receive most of industry inflows

***Alternatives:***

*Hedge fund asset growth continues record run*

- Hedge fund incentives up modestly, record capital for eight consecutive quarters
- Equity Hedge inflows offset by Macro outflows
- Private equity incentives up on healthy results with emphasis on Credit and Real Estate funds
- Private equity buyout fundraising continuing

***Investment and Commercial Banking:***

*Banks continue upward ascent*

- Trading and equity underwriting drive results. Political and regulatory tone aids healthy business pipeline for second half of year
- Investment banking performance down slightly with advisory weighing down results
- Equities trading incentives up significantly due to increased volatility and client activity; strong performance building on healthy first quarter. Fixed income trading gaining momentum
- Stable and healthy performance in Wealth and Investment Management offsets volatility elsewhere

# Projected 2018 Incentive Funding

- *Headcount-adjusted basis*

## Traditional Asset Management & Alternatives

Business/Area	% Change from 2017
<b>Asset Management</b> (Independent and Captive)  <i>Flows up modestly but wavering. Market appreciation drives AUM while fees continue to drop gradually</i>	5% to 10%
<b>Hedge Funds</b> (Independent and Captive)  <i>Assets eclipse record level for eighth consecutive quarter. Performance generally in line with market</i>	0% to 5%
<b>Private Equity</b>  <i>Strong performance across industry. Large focus on credit and real estate. European fund raising gaining momentum</i>	5% to 10%*
<b>High Net Worth</b>  <i>Stable assets and higher fee revenue</i>	5%

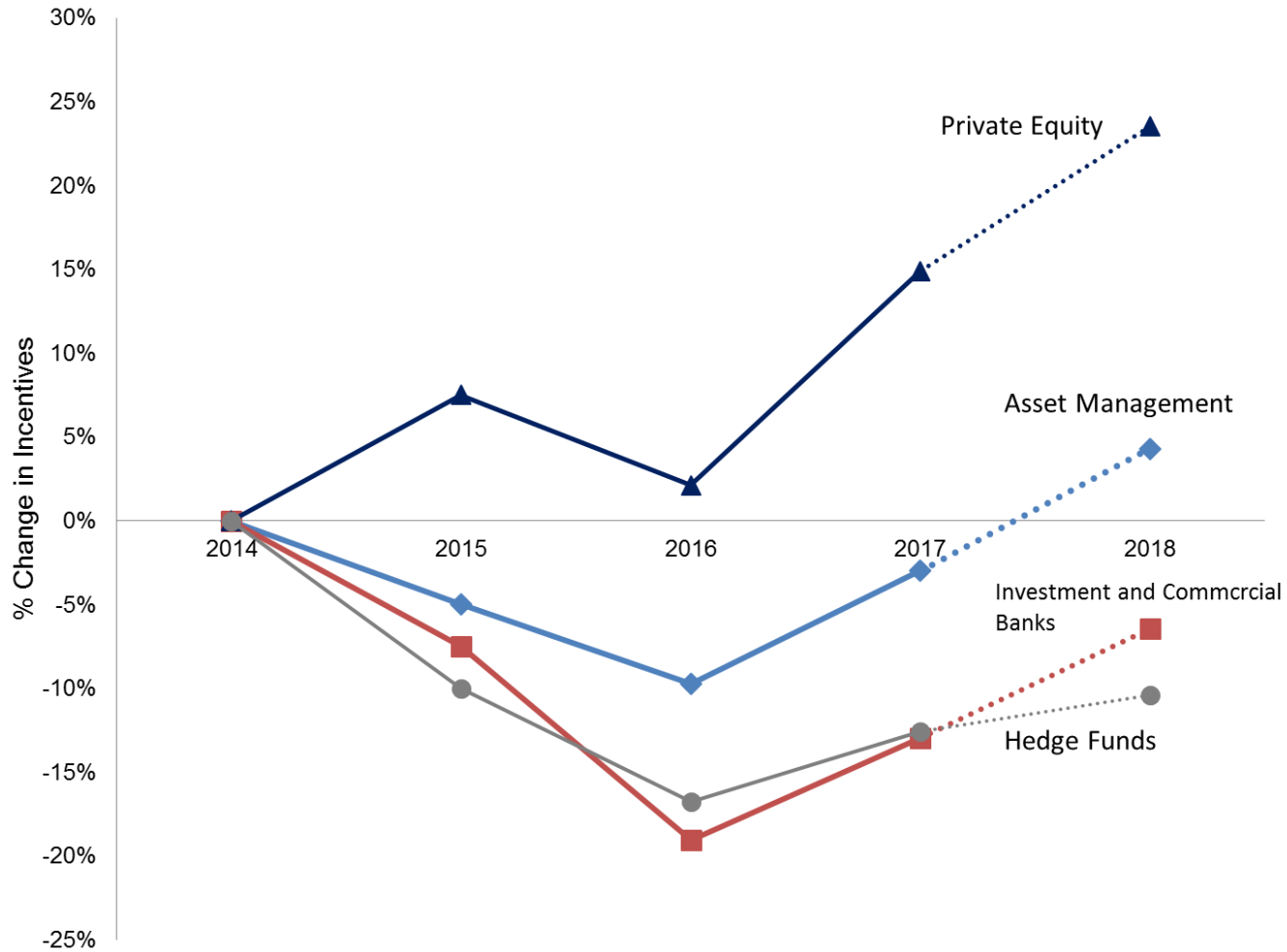
## Investment & Commercial Banking

Business/Area	% Change from 2017				
<b>Firm Management/Staff Positions</b>  <i>Generally moves in line with entire firm. Priority on driving down costs to improve margins</i>	5% to 10%				
<b>Investment Banking</b> <table border="0" style="display: inline-table; vertical-align: middle;"> <tr> <td style="padding-right: 10px;">Advisory</td> <td style="text-align: right;">-5% to -10%</td> </tr> <tr> <td>Underwriting</td> <td style="text-align: right;">0% to 5%</td> </tr> </table>  <i>Strongest results in equity underwriting; advisory down modestly. Wide variability in performance</i>	Advisory	-5% to -10%	Underwriting	0% to 5%	
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Underwriting	0% to 5%				
<b>Sales &amp; Trading</b> <table border="0" style="display: inline-table; vertical-align: middle;"> <tr> <td style="padding-right: 10px;">Equities</td> <td style="text-align: right;">15% to 20%</td> </tr> <tr> <td>Fixed Income</td> <td style="text-align: right;">5% to 10%</td> </tr> </table>  <i>Healthy client activity and active global markets buoy results</i>	Equities	15% to 20%	Fixed Income	5% to 10%	
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Fixed Income	5% to 10%				
<b>Retail &amp; Commercial Banking</b>  <i>Commercial lending aided by rising rates, deposit growth continues</i>	5%				

\*Applies to incentive and equity, excluding carry

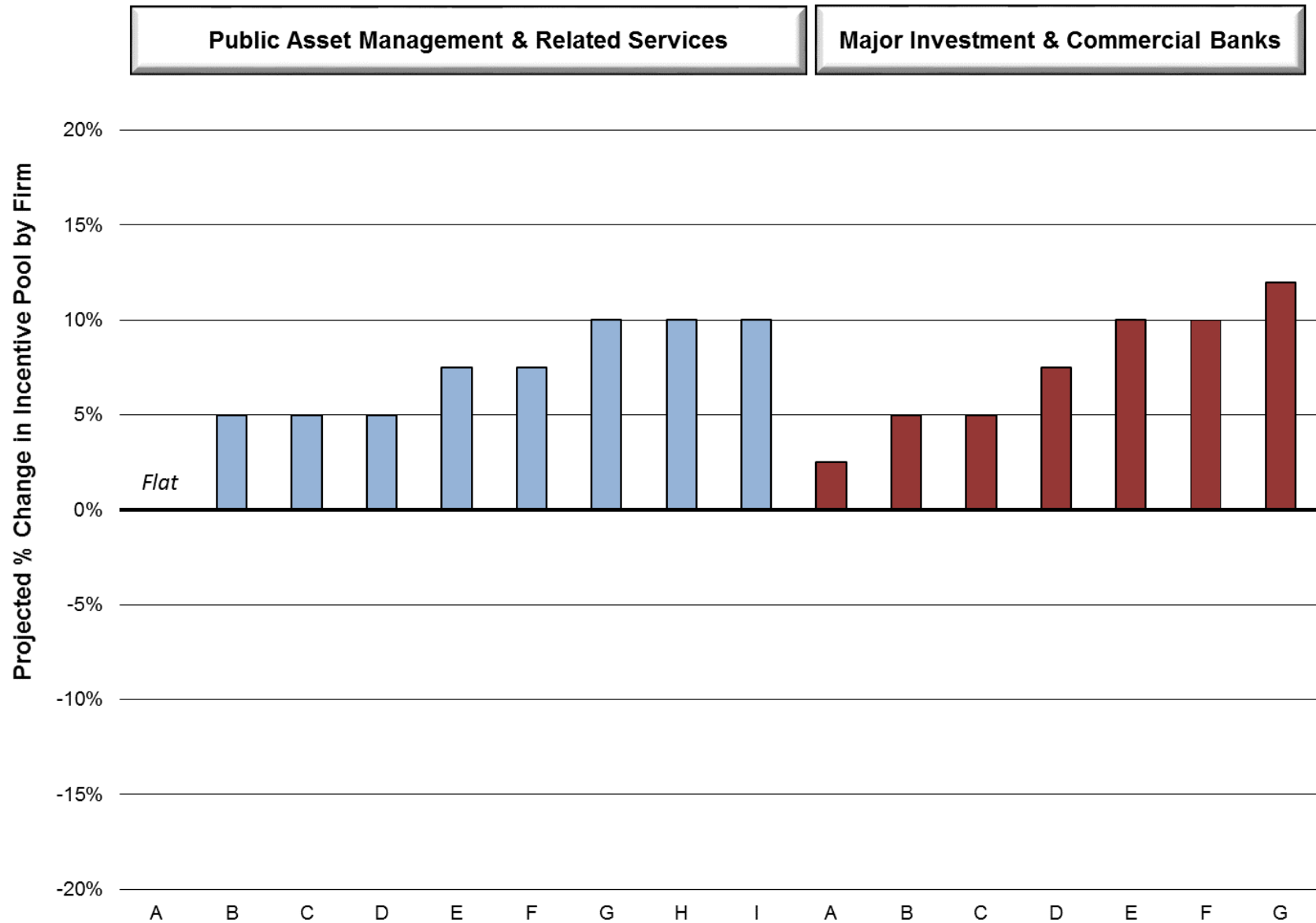
## Incentive Trend

- Incentives expected to be up across sectors, hedge funds trending up slightly while private equity, asset management, and investment and commercial banks see stronger improvements



\*Note: Updated display (previously showed incentive change since 2009)

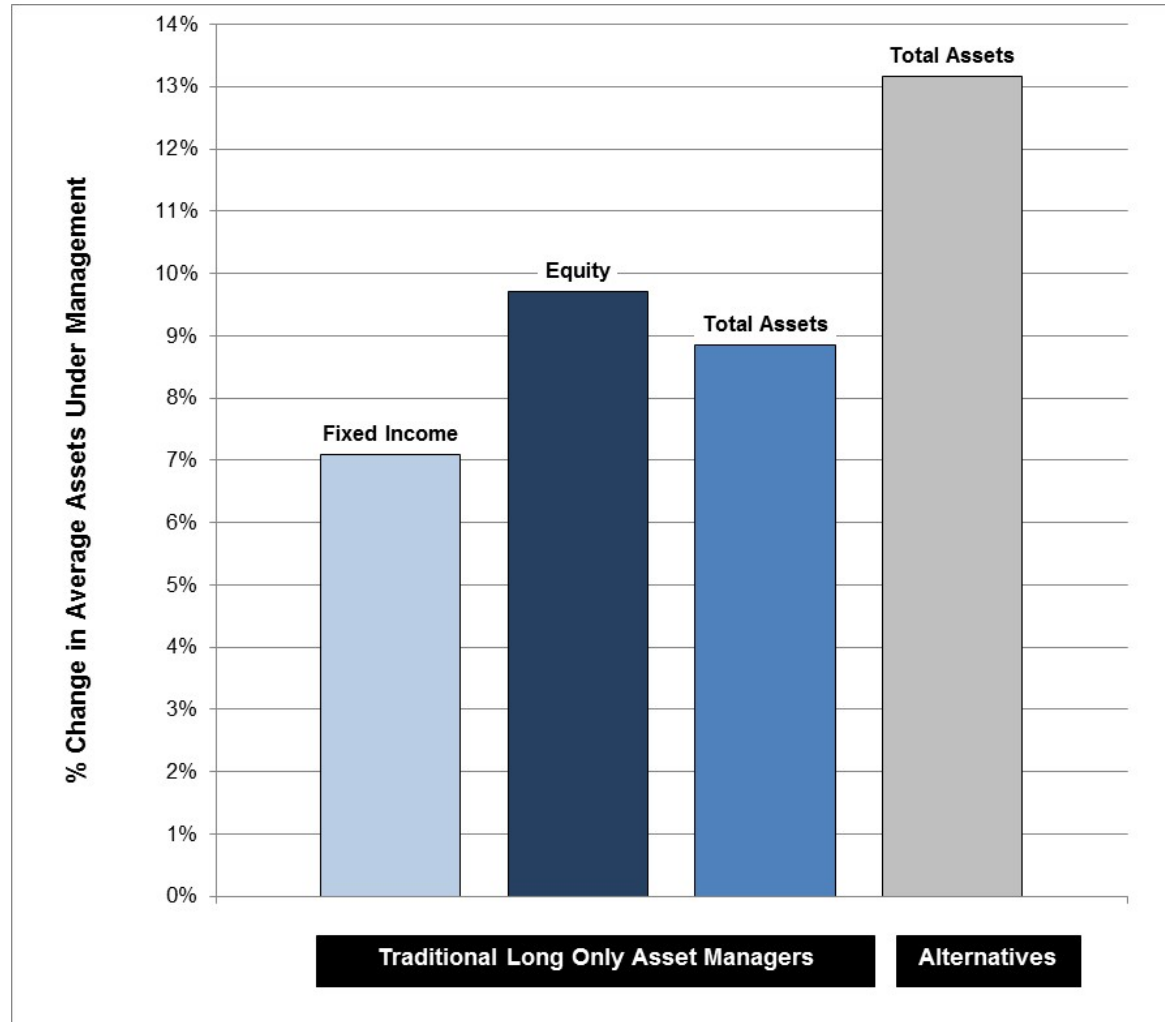
## Projected % Change in Year-End Incentive Pool by Firm\*



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

## Percent Change in Assets Under Management

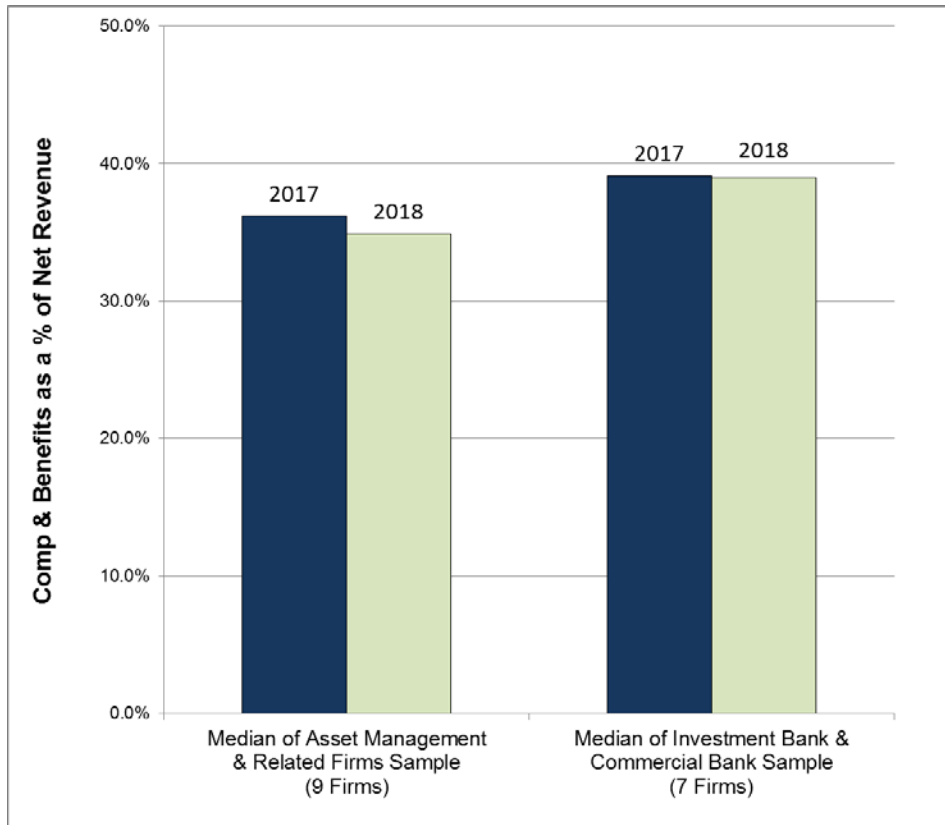
- Data represents median percentage change in average assets under management for six months 2018 compared to average full year 2017, for traditional long only (5 select firms) and alternatives (7 select firms)



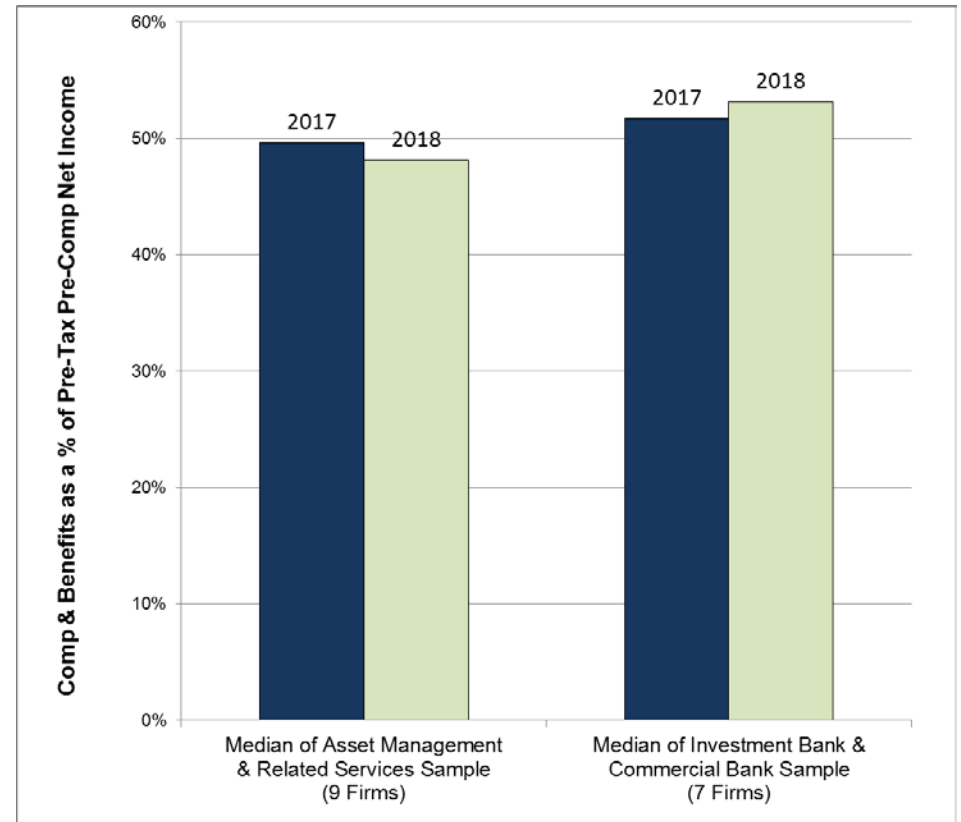
# Year-to-Date Compensation & Benefits Ratios

- 6M 2017 v. 6M 2018 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 7 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 services firms

**2018 EPS Estimate Trend**

