JOHNSON ASSOCIATES
FINANCIAL SERVICES COMPENSATION
Second Quarter Trends and Year-End Projections 8/10/20

After the second quarter, Johnson Associates projects broad decreases in incentive compensation across financial services. Major investment & commercial banks had strong top-line growth, but profits fell as credit provisions continue to mount. Despite market recovery, asset management, hedge funds, and private equity incentives are also expected to decline.

- Dramatic market recovery has alleviated fears of catastrophic year for financial services pay. However, shift to lower fee products, debt defaults, bankruptcies, and curbed consumer/business activity explain disconnect between stock performance and current corporate earnings

Traditional Asset Management:

Revenues fall due to product shifts

- Incentives down broadly
- Flows stable but investors shifting to lower risk, lower fee products impacting revenues
- Fee run rates down industry-wide
- Increased technology and infrastructure costs
- Layoffs beginning and will continue through year-end and into 2021

Alternative Investments:

Private Equity and Hedge Funds down broadly

- Hedge Fund net outflows but offset by recovery in markets
- Macro and long-short strongest performers
- Private Equity incentives down broadly; larger funds outperform smaller funds
- Debt defaults from Private Equity-backed companies having larger impact on smaller funds

Investment and Commercial Banking:

Banks brace for large losses

- Despite stronger investment banking, management and support down as overall earnings decline reduces incentive pools
- Substantial credit loss provisions for widescale defaults in consumer and retail businesses
- Record trading profits on strong client activity and volatility. Debt and equity underwriting up significantly due to surge in client capital raises
- Major variations in incentive compensation by sector
- Targeted headcount reductions expected to ramp up through year-end / first quarter 2021

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Projected 2020 Incentive Funding

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

Traditional Asset Management & Alternatives

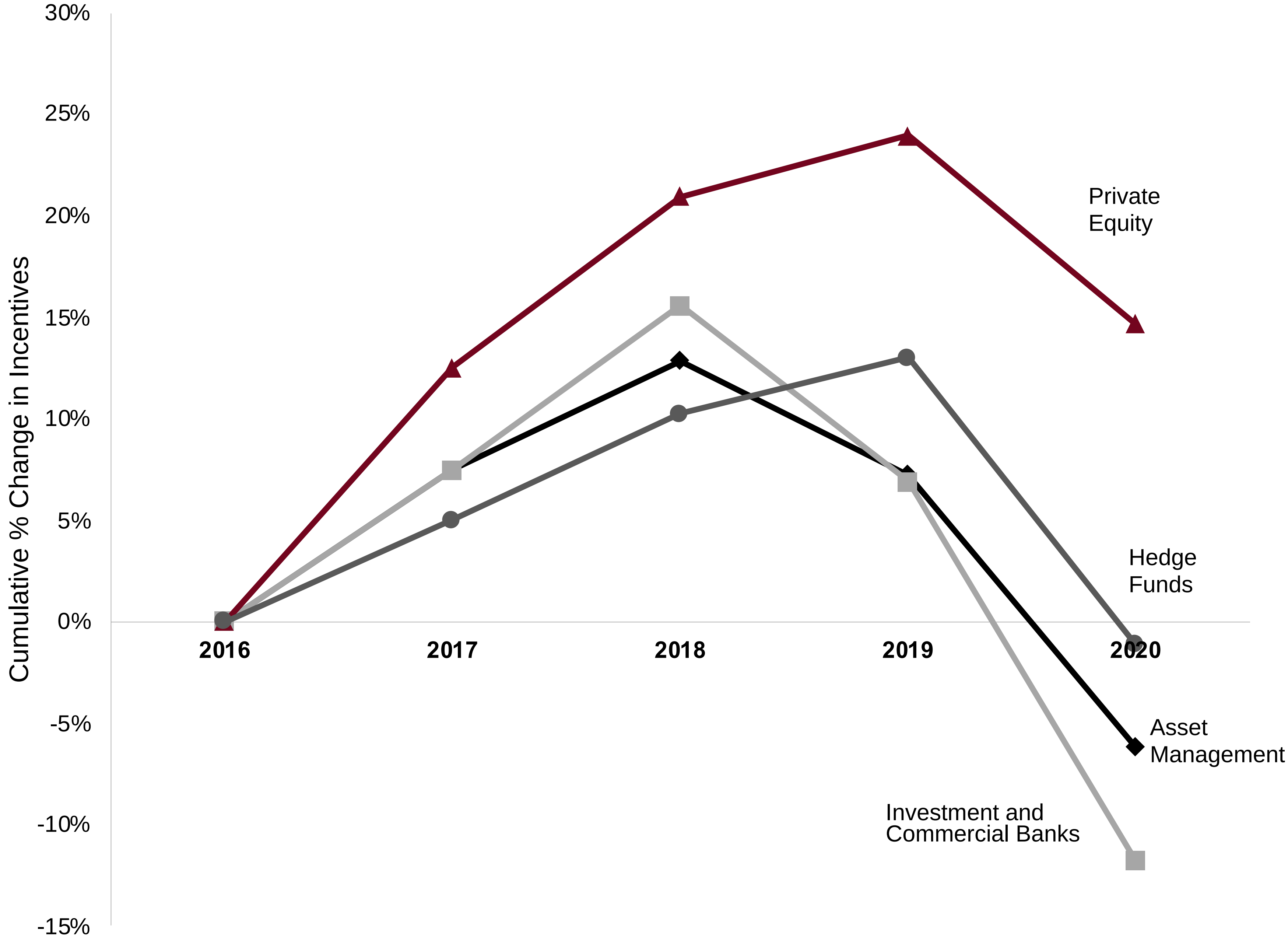
Business/Area		% Change from 2019
Asset Management		**-10% to -15%**
Despite market recovery, investor shift to lower fee products weighing on revenues		
Hedge Funds		**-10% to -15%**
Down broadly; net outflows continue industry-wide. Technology and healthcare equity strategies outlier positive performers		
Private Equity	**Large**	**-5% to -10%***
	Small / Mid	**-15%***
Fundraising slower and higher portfolio company default rates are upending smaller funds. Large funds benefit from capital flexibility		
High Net Worth		**-10% to -15%**
Lower asset base compounded by lower fee products as clients de-risk		

Investment & Commercial Banking

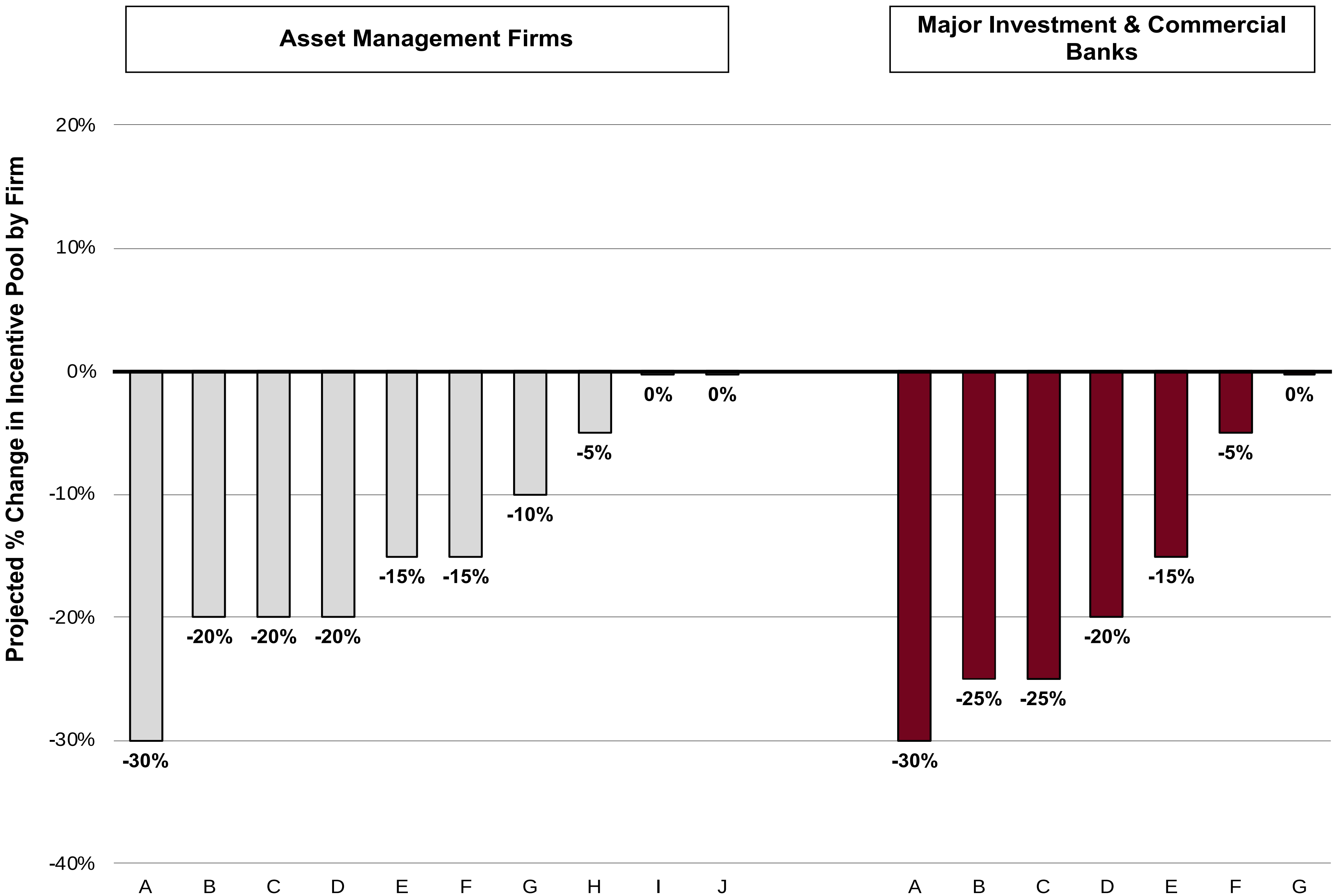
Business/Area		% Change from 2019
Firm Management/Staff Positions		**-15% to -20%**
Investment banks outperform peers with larger commercial and retail presence; Firm management may be down more than pool		
Investment Banking	**Advisory**	**-10% to -15%+**
	Underwriting	**+15% to +20%**
Advisory down broadly while underwriting aided by surge in client financing activity		
Sales & Trading	**Equities**	**+15% to +20%**
	Fixed Income	**+25% to +30%+**
Record client activity amidst volatility spike; volumes moderate in second half		
Retail & Commercial Banking		**-25% to -30%+**
Widespread defaults anticipated as credit provisions continue		

*Applies to incentive and equity, excludes carry

Incentive Trend by Business Segment



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

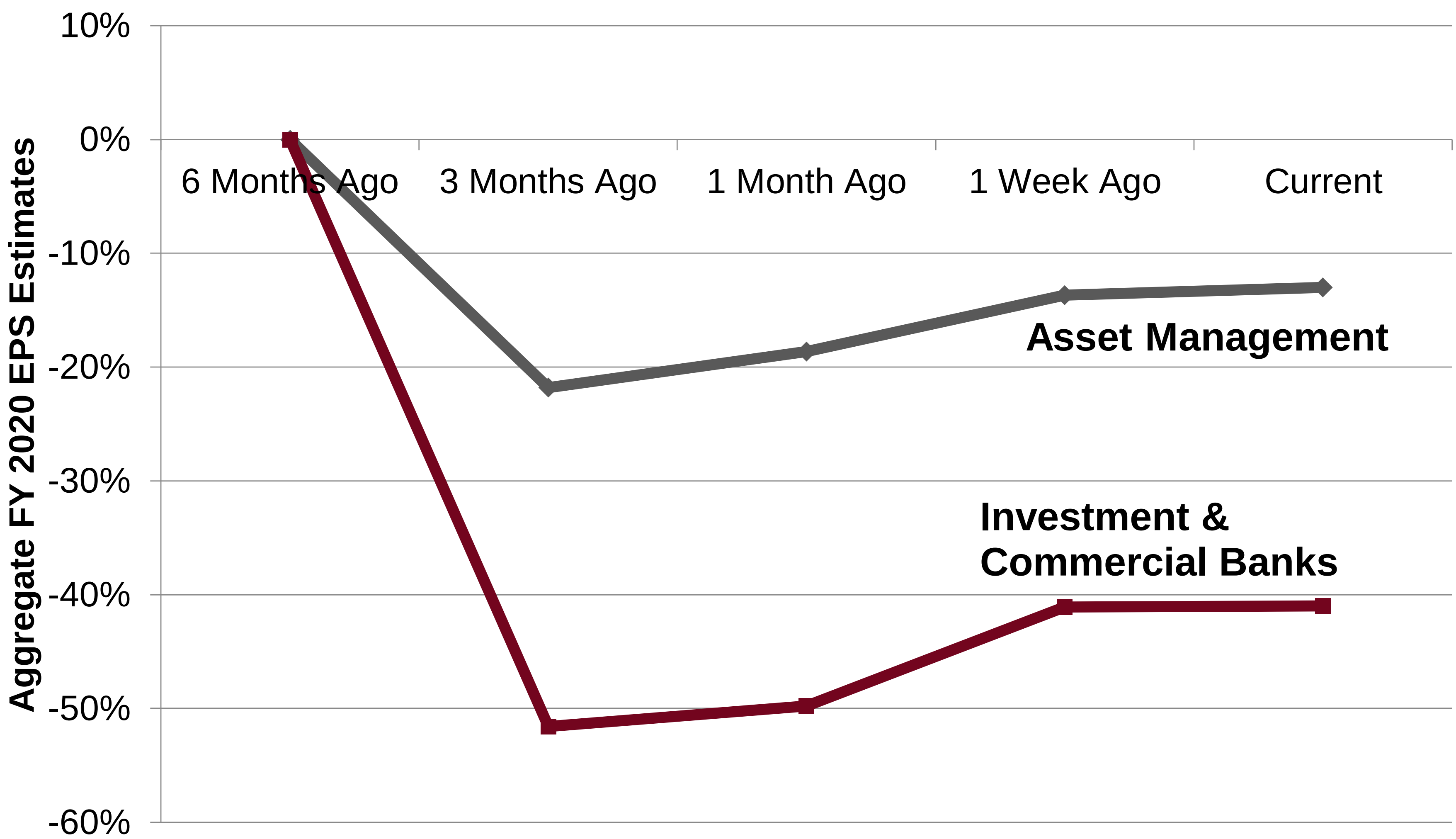


** 6 months actual data with projection for remainder of year*

Analyst Estimated EPS Trend

- Through July 2020, analyst estimates improving but still down substantially for both asset management and investment and commercial banks
- Chart reflects a sample of 6 investment and commercial banks and 10 asset management firms

2020 EPS Estimate Trend (% Change)



YTD Stock Performance: Vanguard Financials ETF vs. S&P 500 Equal Weight ETF vs. S&P 500

- Financial Services industry continues to significantly underperform the broader market recovery
- S&P 500 Equal Weight ETF highlights market recovery disproportionately attributable to technology stocks