

# Johnson Associates

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*Financial Services Compensation  
First Quarter Trends and Year-End Projections*

May 5, 2022

# Financial Services: Year-End Projections

After the first quarter, Johnson Associates projects year-end decrease in incentive compensation across financial services. Investment & commercial banking profits down versus 2021 as investment banking falls sharply. Asset management incentives down significantly on declining markets. Private equity incentives dip lower on slowdown in fundraising and fewer realizations while hedge funds remain flat as market volatility leads to strong inflows. For the first time in decades, inflation has significant impact on real compensation outcomes.

## ***Traditional Asset Management***

*Incentives down on market depreciation*

- AUM and revenues down significantly on market drop
- Moderate outflows in equities while fixed income, multi-asset, and cash management balances increase
- Buildout and investment in alternative strategies with higher fees and investor interest
- Talent war and hiring to slow as firms look to control expenses during down year
- Pressure from fin-tech and crypto boost pay and hiring for high-end technology roles

## ***Alternative Investments***

*Private equity and hedge fund incentives fall*

- Hedge funds flat on highest quarterly inflows since 2015 as investors seek yield in tough environment
- Global macro and credit strategies outperform
- Largest private equity funds flat; small and mid-sized funds fall on fundraising slowdown
- Sustainable investing and infrastructure strategies garner significant investor interest and talent focus
- Venture capital down from record highs on fundraising slowdown and fewer deals amidst weaker markets

## ***Investment and Commercial Banking***

*Incentives down as investment banking retreats from record 2021*

- Profits fall from record 2021 when reserve releases boosted results
- Investment banking down substantially as IPO market comes to a halt
- Equities trading up significantly as market volatility fueled higher client activity
- Fixed income trading up modestly after weaker 2021
- Advisory slowdown from torrid 2021 pace as higher borrowing costs impact deal-making
- Consumer spending slowdown from higher inflation partially offset by commercial lending growth
- Ukrainian conflict, interest rates, market volatility, and higher inflation are key drivers for remainder of 2022

# Projected 2022 Incentive Funding

- Headcount-adjusted basis (i.e. felt impact). Excludes impact from inflation (i.e. 7%+)

## Traditional Asset Management & Alternatives

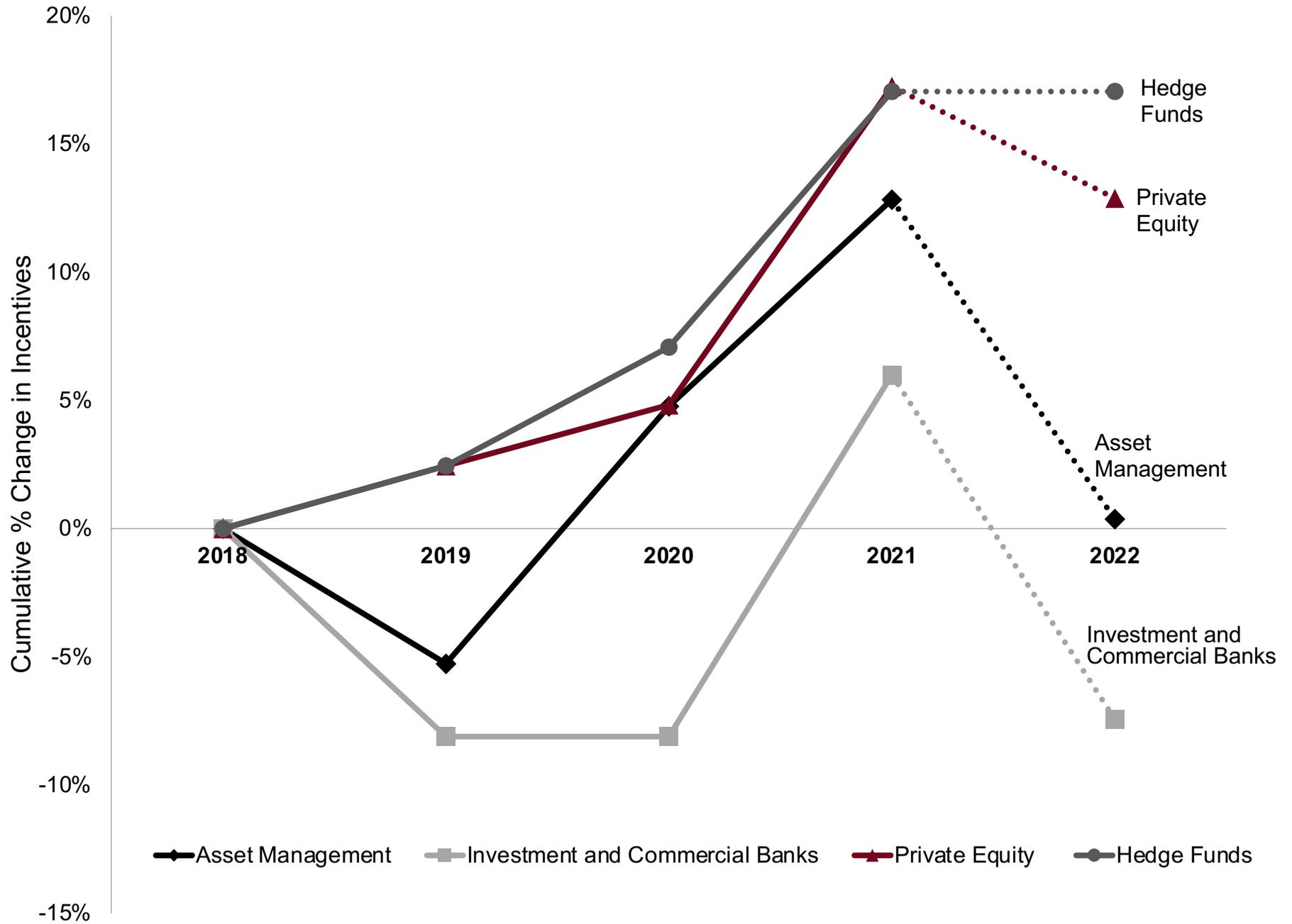
Sector / Business	% Change from 2021	
<b>Asset Management</b>	<b>-10% to -15%</b>	
AUM and revenue falls on market decline and moderate outflows as clients de-risk		
<b>Hedge Funds</b>	<b>Flat</b>	
Strong inflows as investors seek returns in challenging public market environment		
<b>Private Equity*</b>	<b>Mega Mid / Large</b>	<b>Flat -5% to -10%</b>
AUM falls on market depreciation and moderate outflows as clients seek to de risk		
<b>High Net Worth</b>	<b>-10%</b>	
Positive flows offset by poor market performance		

## Investment & Commercial Banking

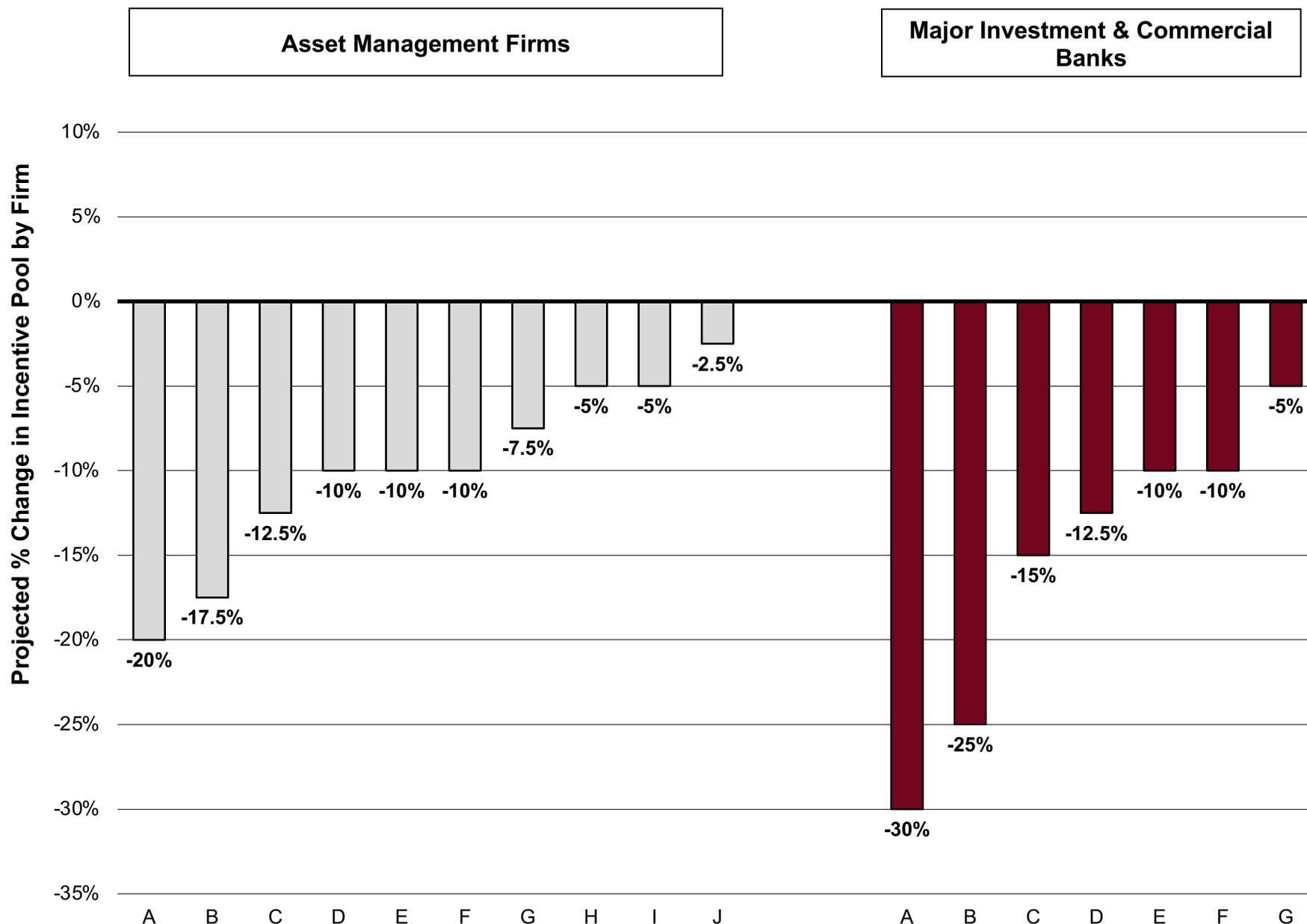
Sector / Business	% Change from 2021	
<b>Firm Management Corporate Staff</b>	<b>-10% to -15% -5% to -10%</b>	
Mixed performance across business lines. Trading outperforms while investment banking falls sharply		
<b>Investment Banking</b>	<b>Advisory Underwriting</b>	<b>-15% to -20% -35% to -40%+</b>
Revenues for equity underwriting significantly lower (i.e. -70%+) and debt underwriting revenues -15% to -20%. Advisory down from strong 2021		
<b>Sales &amp; Trading</b>	<b>Equities Fixed Income</b>	<b>+5% to +10% +15% to +20%</b>
Trading up as market volatility led to higher client activity. Fixed income up significantly from weaker 2021		
<b>Retail &amp; Commercial Banking</b>	<b>-5%</b>	
Consumer spending to fall on higher inflation. In reversal from 2021, healthy commercial loan growth		

\*Applies to incentive and equity, excludes carry

# Incentive Trend by Business Segment



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

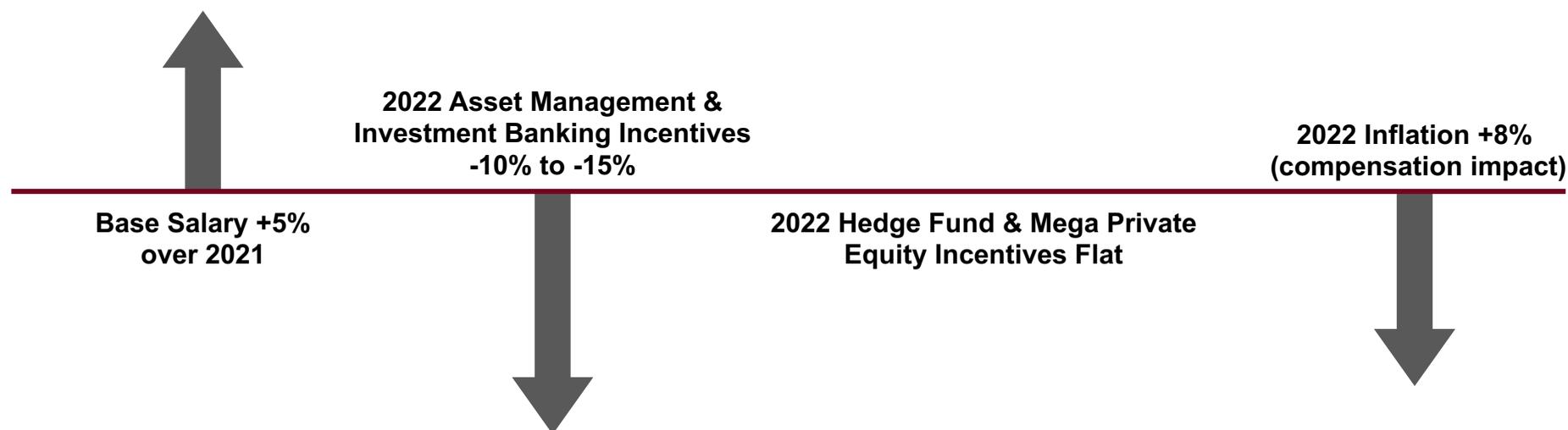


\* 3 months actual data with projection for remainder of year

# Potential 2022 Year-End Landscape

## Key Issues in Tumultuous Environment

- Incentive divergences create recruiting and retention challenges for asset management and investment banking. Largest alternative firms benefit from high fees, strong fundraising, and carried interest opportunity
- “War for talent” will slow and headcount likely to remain flat or decrease as firms look to control expenses in down year. Selective hiring in high-end technology continues
- Challenging year as employers grapple with negative impact from return to office, high inflation, and lower incentives
- Potential scenario highlights importance of communication, data refresh, and early planning / analysis

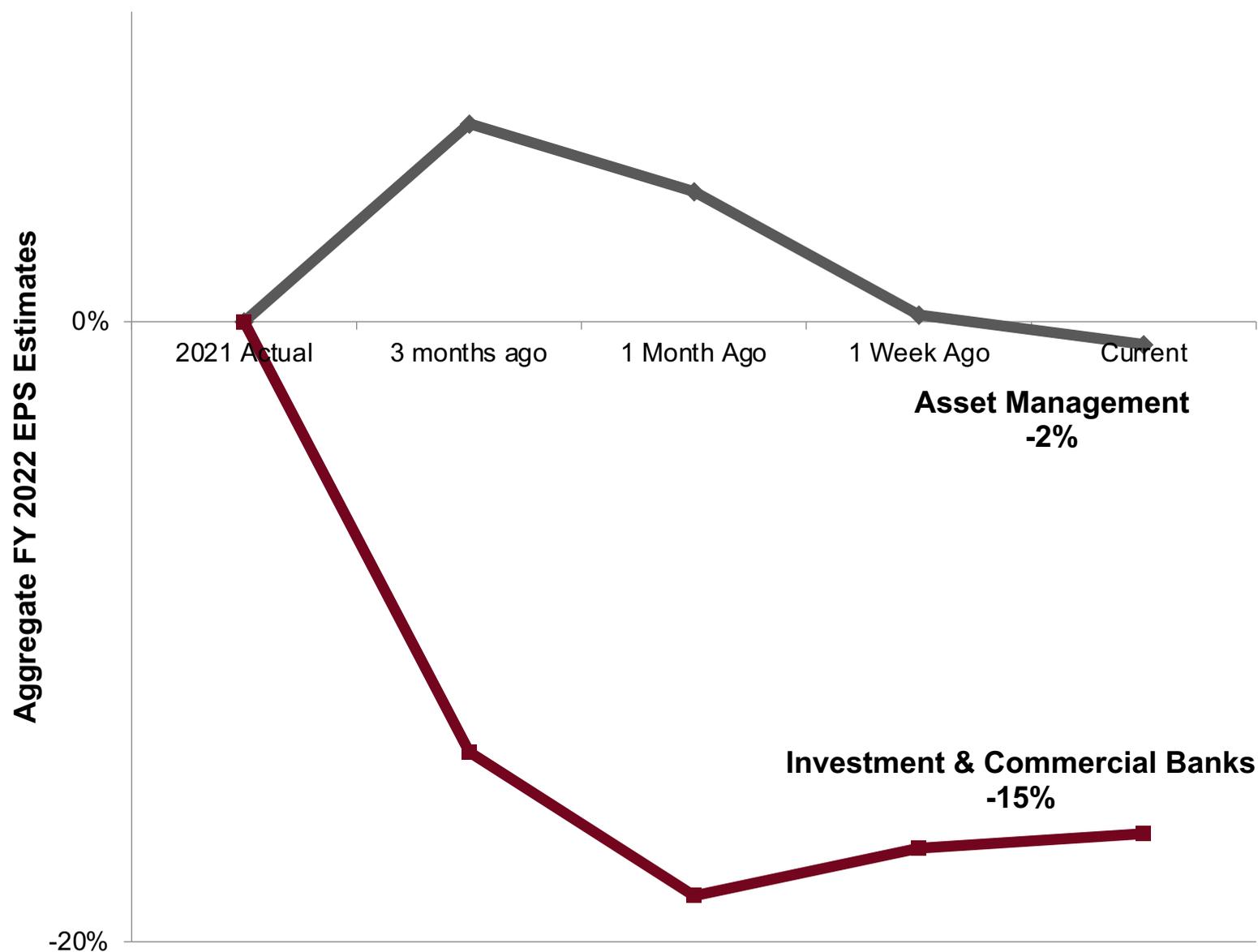


### Example of Impact:

2021:	\$200,000 Base	+	\$300,000 Incentive	=	\$500,000 Total	
2022:	\$215,000 Base	+	\$270,000 Incentive	=	\$485,000 Total	(-3% Notional Impact)
					\$445,000 Total	(-11% After Inflation)

# Analyst Estimated EPS Trend

- Analyst estimates for banks fall significantly while asset management estimates trend downward
- Chart reflects a sample of 6 investment & commercial banks & 10 asset management firms



# YTD Stock Performance Across Sectors

- Financial services, led by alternatives, significantly underperforming the S&P 500 year-to-date

