Johnson Associates

Financial Services Compensation

First Quarter Trends and Year-End Projections

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Financial Services: Year-End Projections

After the first quarter, Johnson Associates projects <u>uneven incentive trends across financial services.</u> Traditional asset management down as clients shift out of higher fee products. Private equity, hedge funds, and major investment and commercial banks flat to up moderately.

Confluence of interest rates, economic uncertainty, bank collapses, and uneven performance across sectors makes 2023 uneven and complicated year in financial services.

Traditional Asset Management

Incentives down on product shift

- Shift in product mix leads to lower revenue and profits
- Fixed income and multi-asset inflows offset by equities outflows
- 60/40 portfolio rebounds
- Operating margins downward trend exacerbated by shift to lower fee products
- Muted hiring with reining in of costs and doubling down on best talent

Alternative Investments

Private equity and hedge funds incentives stable

- Hedge funds flat to up moderately on inflows
- Largest private equity funds flat and continue to dominate fundraising
- Small and mid-sized funds maintain compensation levels but challenges in fundraising
- Private equity realizations plummet
- Venture capital deals decline significantly
- Private credit and infrastructure remain hot sectors

Investment and Commercial Banking

Incentives mixed by business segment

- Investment banking down on weak advisory and equity capital markets
- Debt capital markets outperforms
- Advisory down with weak M&A outlook through year-end
- Fixed income trading up as higher yields drive client activity
- Retail and commercial banking buoyed by higher interest rates but credit loss provisions worryingly increase
- Regional banks suffer deposit outflows and battered share prices while major global banks benefit
- Headcount reductions continue with investment banking slide

Projected 2023 Incentive Funding

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

Traditional Asset Management & Alternatives

Sector / Business		% Change from 2022
Asset Management		**-5% to -10%**
AUM up but revenue and profits down as investors shift from active to passive equities, fixed income, and cash		
Hedge Funds		**Flat to +5%**
Moderate inflows and market appreciation boost equity-focused funds. Macro funds down slightly from strong 2022		
Private Equity*	**Mega** **Mid/Large**	**Flat** **Flat**
Dealmaking and exits continue decline while mega funds dominate fundraising. Interest rates strain buyout activity		
High Net Worth		**Flat to +5%**
Equities and fixed income markets rebound from weak 2022		

Investment & Commercial Banking

Sector / Business		% Change from 2022
Firm Management **Corporate Staff**		**Flat to +10%** **Flat**
Uneven results as major banks with robust commercial banking outperform while investment banking results mixed		
Investment Banking	**Advisory** **Underwriting**	**-15% to -20%** **+5% to +10%**
Advisory slump continues. Debt underwriting outperforms equity underwriting as IPO activity muted		
Sales & Trading	**Equities** **Fixed Income**	**Flat** **+10% to +15%**
Fixed income builds on strong 2022 as higher yields and uncertain equity markets boost client activity		
Retail & Commercial	**Major Global** **Regional**	**+10% to +20%** **-10% to -20%+**
Major U.S. banks benefit greatly from higher deposit margins. Regional banks suffer outflows stemming from unrealized losses		

*Applies to incentive and equity, excludes carry

Illiquid Investments Landscape

Challenging environment after years of industry tailwinds

Fundraising

- Smaller funds and longer cycles
- Mega funds capture outsized share of capital
- Dry powder levels higher and first-time fund launches down significantly

Sectors Divergence

- Private credit and infrastructure “hot” areas
- Commercial real estate and venture capital struggle
- Higher interest rates limit LBO deal activity

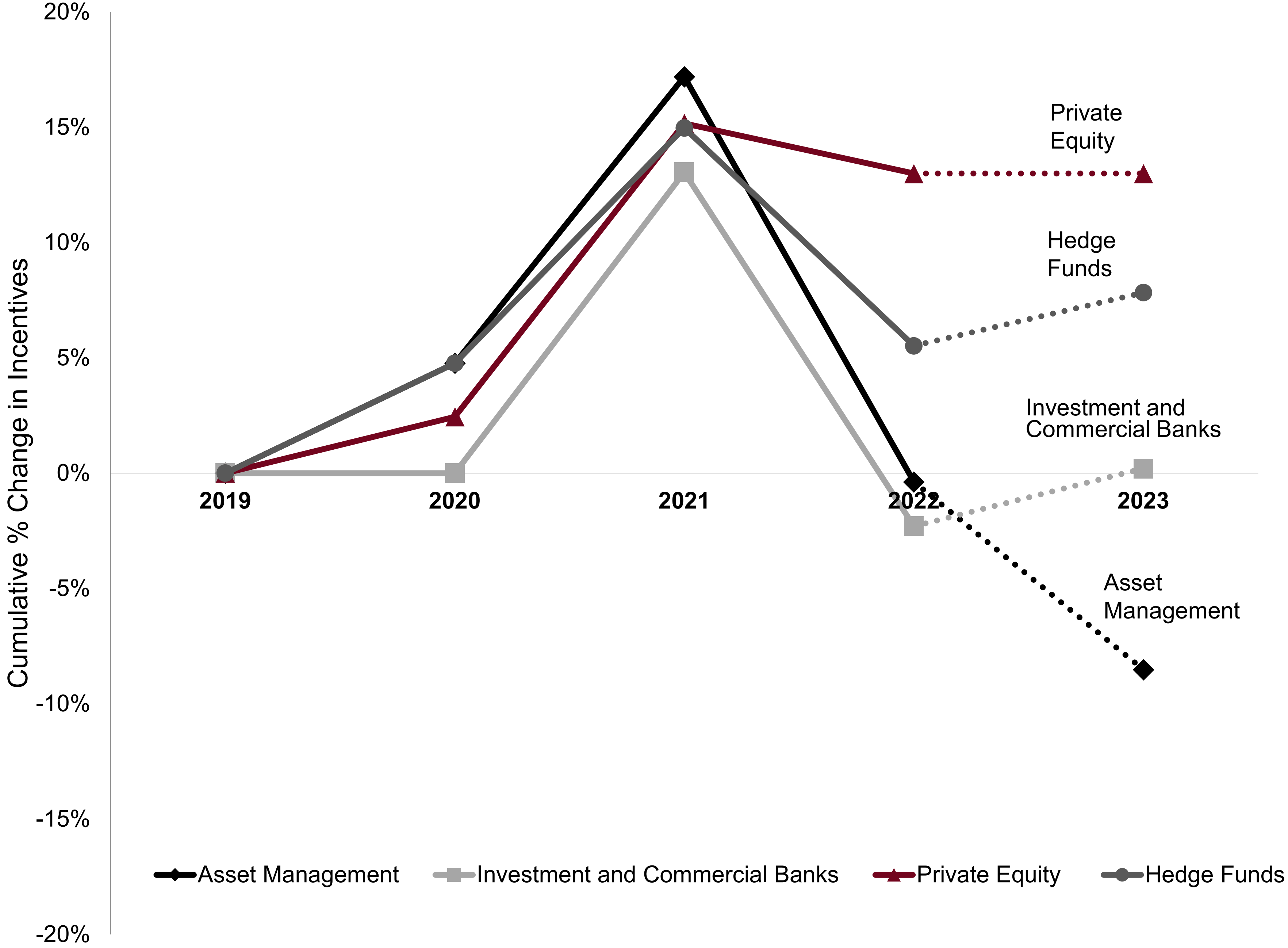
Traditional Compensation

- Base and bonus levels mostly stable
- Meaningful incentive declines unlikely unless multi-year downturn
- Equity and succession prominent issue

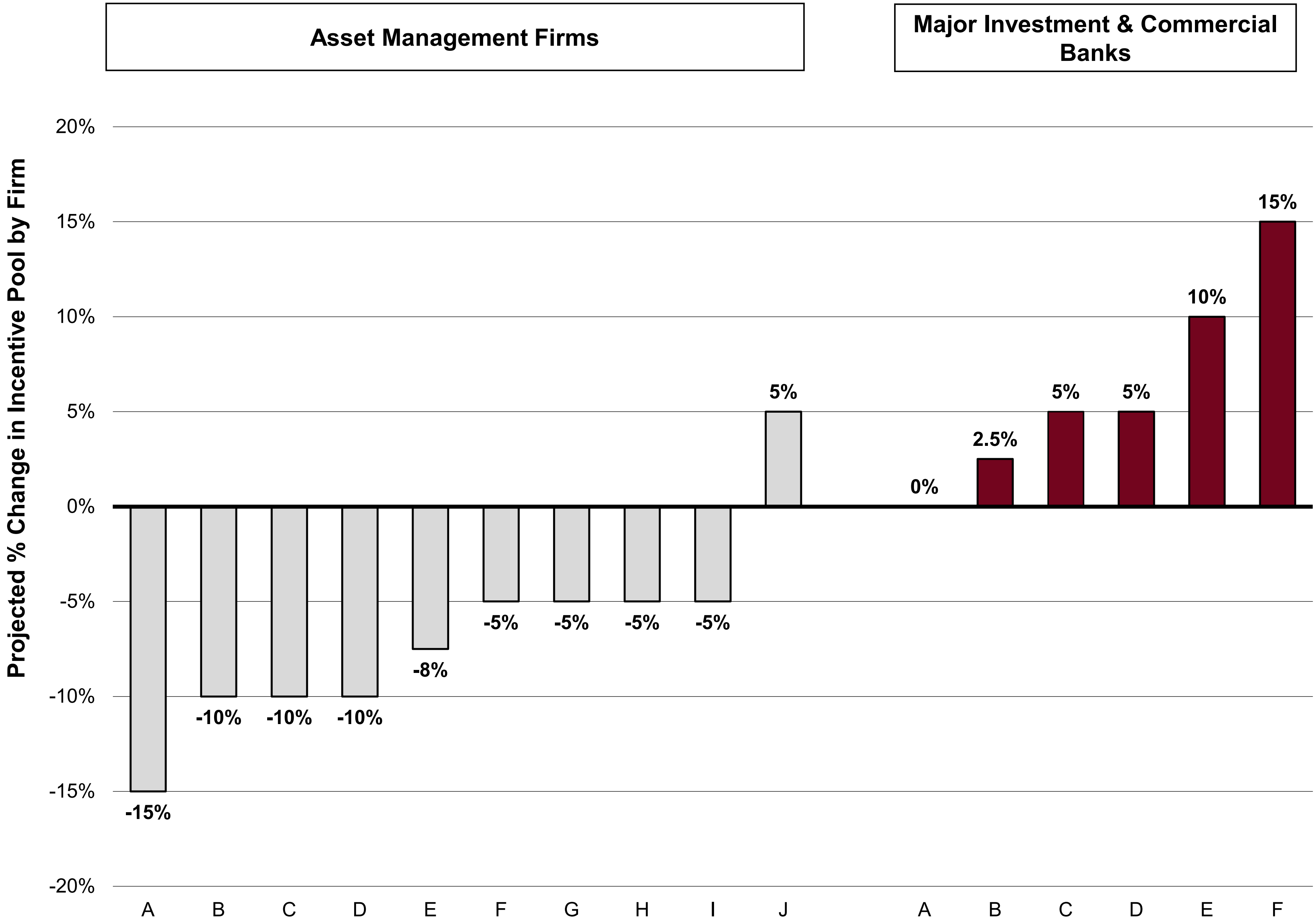
Carry

- Realizations plummet
- Marks may not yet fully reflect portfolio valuations
- Creative approaches needed to compete with largest funds

Incentive Trend by Business Segment



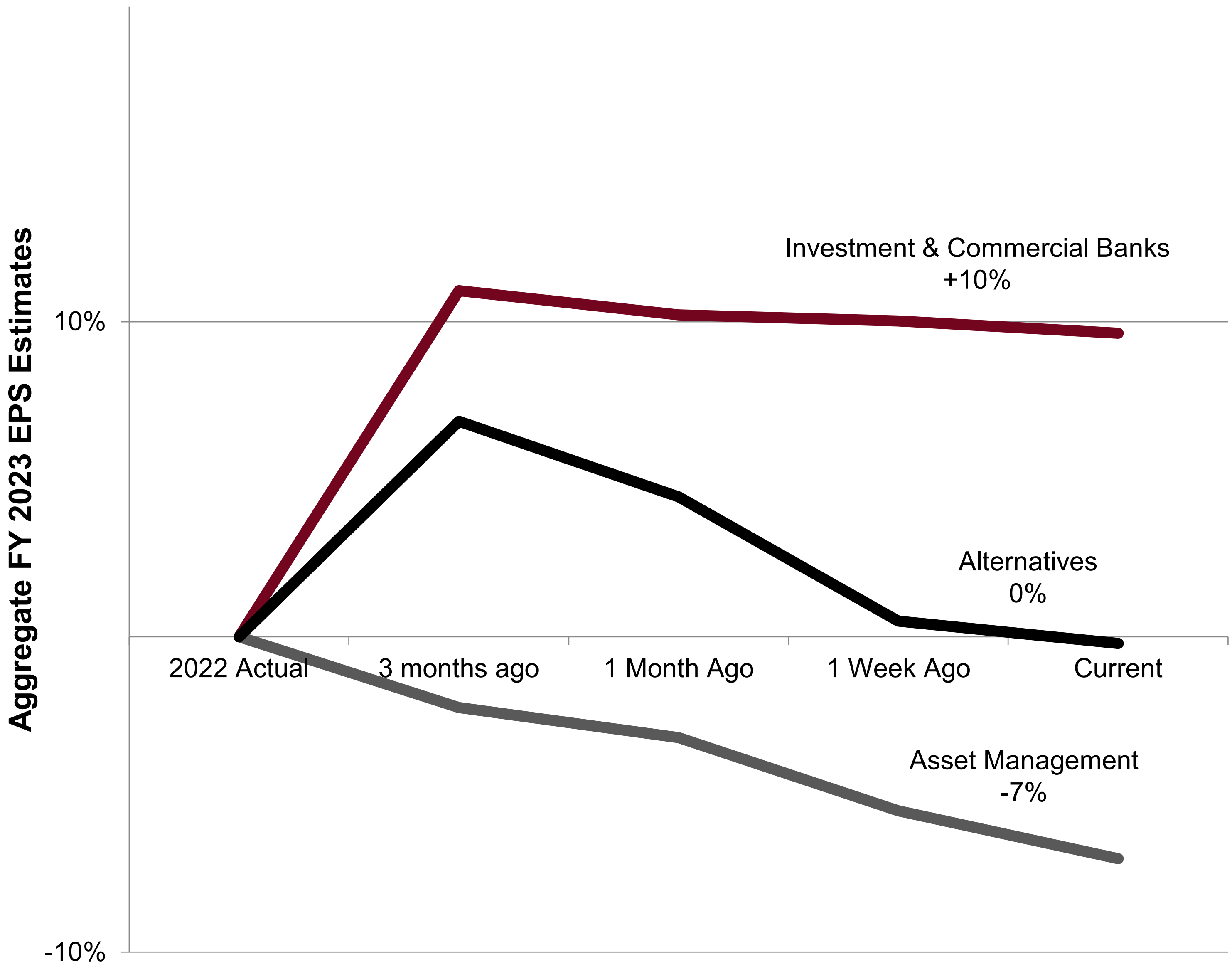
Projected % Change in Year-End Incentive Pool by Firm*



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

Analyst Estimated EPS Trend

- Analyst estimates for banks jump, alternatives estimates flat, and asset management estimates trend downward
- Chart a sample of 6 investment & commercial banks, 6 alternatives firms, and 10 asset management firms



YTD Stock Performance Across Sectors

- **Divergence in stock performance by sector. Major declines in KRE Regional Bank ETF**