Johnson Associates

Financial Services Compensation

Third Quarter Trends and Year-End Projections

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19 West 44th Street ▪ Suite 511 ▪ New York, NY 10036 ▪ (212) 221-7400 ▪ info@jaiconsulting.com

Financial Services: Year-End Projections

After the third quarter, Johnson Associates projects incentives to decline or be flat across financial services. Traditional asset management down on active products outflows. Private equity and hedge funds flat. Investment banking incentives generally down as advisory and underwriting volumes remain suppressed.

Equity markets have fallen sharply from 2023 peak but remain positive. Year-end incentives somewhat delinked from stock market performance across asset management, hedge funds, private equity, and banks. Business challenges and costs in focus heading into uncertain 2024.

Traditional Asset Management

Incentives decline on active product outflows

- Revenues down moderately
- Shift from active to passive products (primarily equities outflows)
- Fee compression continue to erode margins
- Combination of layoffs and tepid hiring reduce headcount levels
- Bolt-on products (i.e., alternatives, tech platforms) generate higher fees and diversify revenue streams

Alternative Investments

Private equity and hedge funds incentives stable

- Hedge funds generally flat. Multi-strat funds attract flows
- Equities funds rebound
- Private equity incentives flat despite large decline in fundraising for both mega and mid-sized/large funds
- Private equity and venture capital firms reassess headcount given fundraising challenges
- Private credit and infrastructure remain hot sectors

Investment and Commercial Banking

Incentives mixed by business segment

- Advisory down significantly again from very weak 2022
- Equity underwriting incentives trending higher but well below historical levels. Debt underwriting down moderately to flat
- Equities trading down while fixed income trading generally flat
- In tumultuous year, regional bank profits fall on higher funding costs and weak lending results
- Large global banks focus on growing more stable revenue streams like wealth management
- Compensation expense skews higher on severance costs

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 stable as rising markets partially offset outflows. Revenue and profits fall on shift from active to passive products		
Hedge Funds		**-5% to +5%**
Moderate inflows led by largest funds. Multi-strat funds outperform while macro flat from strong 2022		
Private Equity*	**Mega**	**Flat**
	Mid/Large	**Flat**
Funds recalibrate fundraising expectations and headcount levels. Deals and exits fall again		
Wealth Management		**+5%**
Product offerings like alternatives attracting new clients. Asset levels up on positive flows		

Investment & Commercial Banking

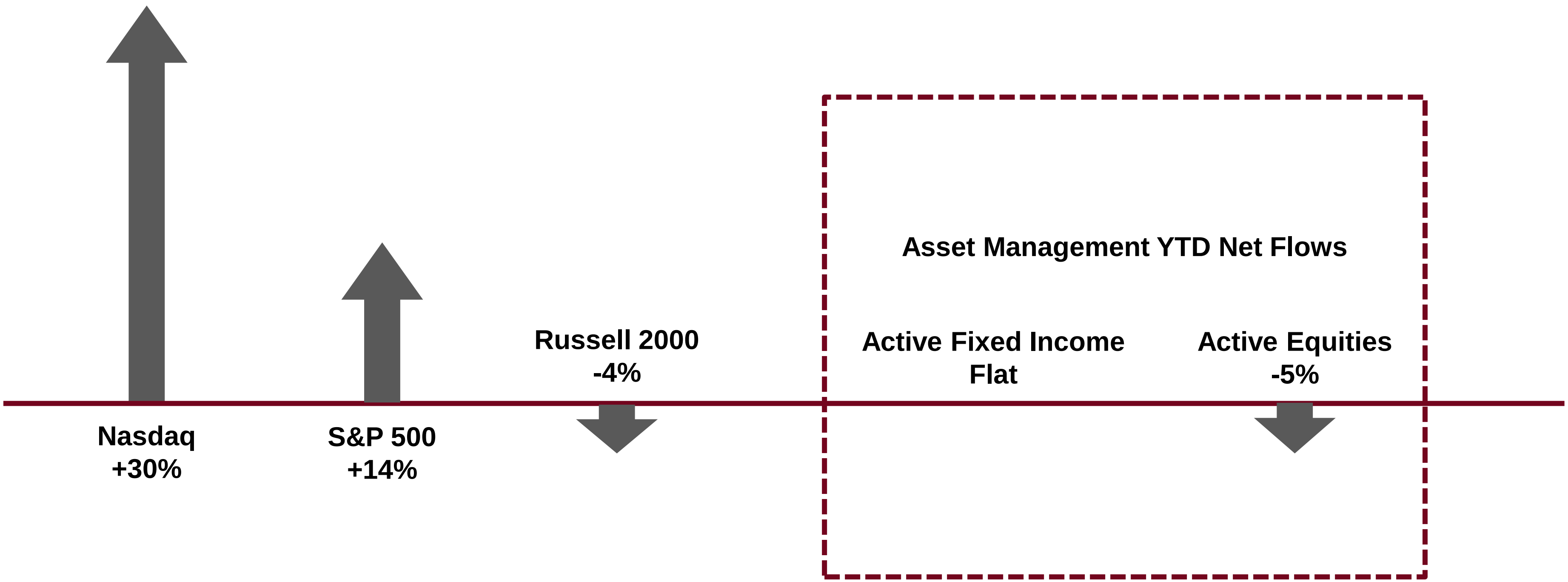
Sector / Business		% Change from 2022
Firm Management		**-5% to +5%**
Corporate Staff		**Flat**
Investment banking results mixed but advisory down significantly for second consecutive year		
Investment Banking	**Advisory**	**-15% to -25%**
	Equity Underwriting	**+5% to +15%**
	Debt Underwriting	**-10% to Flat**
Advisory volumes remain suppressed. Equity underwriting up from poor 2022 while debt underwriting down moderately		
Sales & Trading	**Equities**	**-5% to -10%**
	Fixed Income	**-5% to +5%**
Equity trading down slightly on lower client activity. Fixed income trading generally flat		
Retail & Commercial	**Major Global**	**Flat to +10%**
	Regional	**-10% to -20%**
Major banks up with deposit inflows but funding costs increase. Regional banks recoil from underperforming business units		

*Applies to incentive and equity, excludes carry

Asset Management Incentives Delinked from Markets

Asset Management Revenues Down Moderately Despite Rising Markets

- Active product fee pressures combined with shift to lower fee products and ETFs drag revenues lower
- Assets under management less relevant indicator of profitability with multi-year trend of fee compression and shift to lower fee products reducing margins
- Active equities managers challenged by market phenomenon as outsized portion of gains driven by handful of firms (S&P 500 +14% vs. S&P 500 Equal Weight Index -2%). S&P 500 average for 2023 only up 3% vs. 2022 average

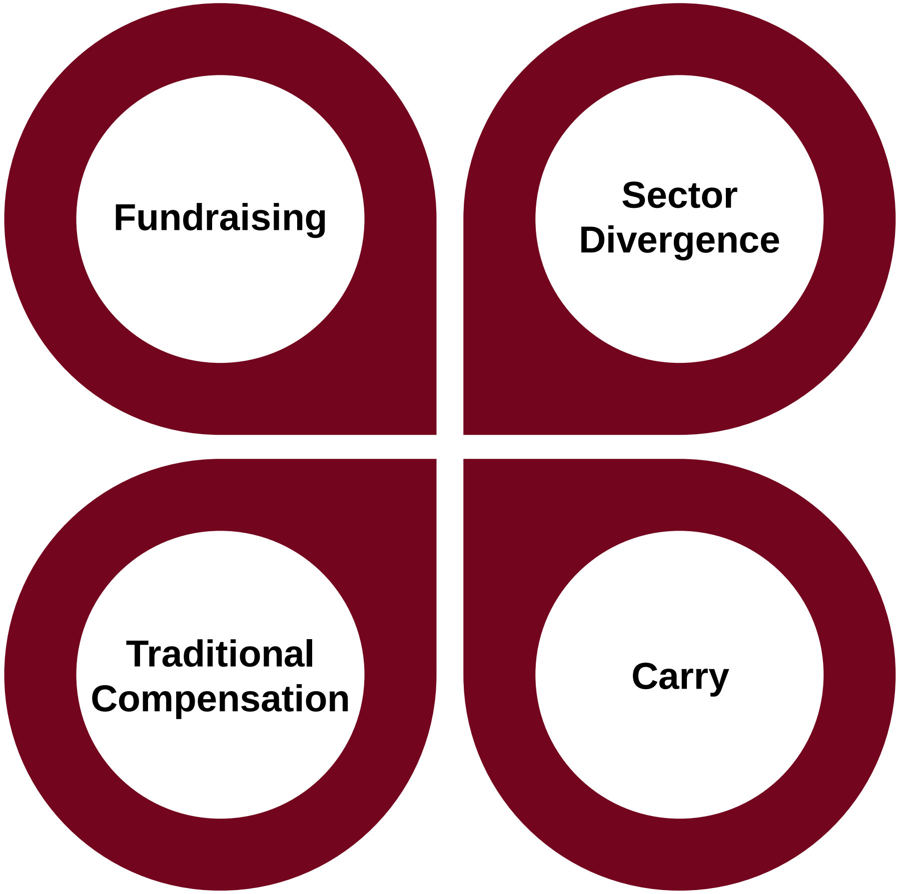


Illiquid Investments Landscape

Challenging environment after years of industry tailwinds

- For first time in decade, mega funds challenged by fundraising environment
- Smallest funds struggle
- Dry powder levels remain high and first-time fund launches down significantly

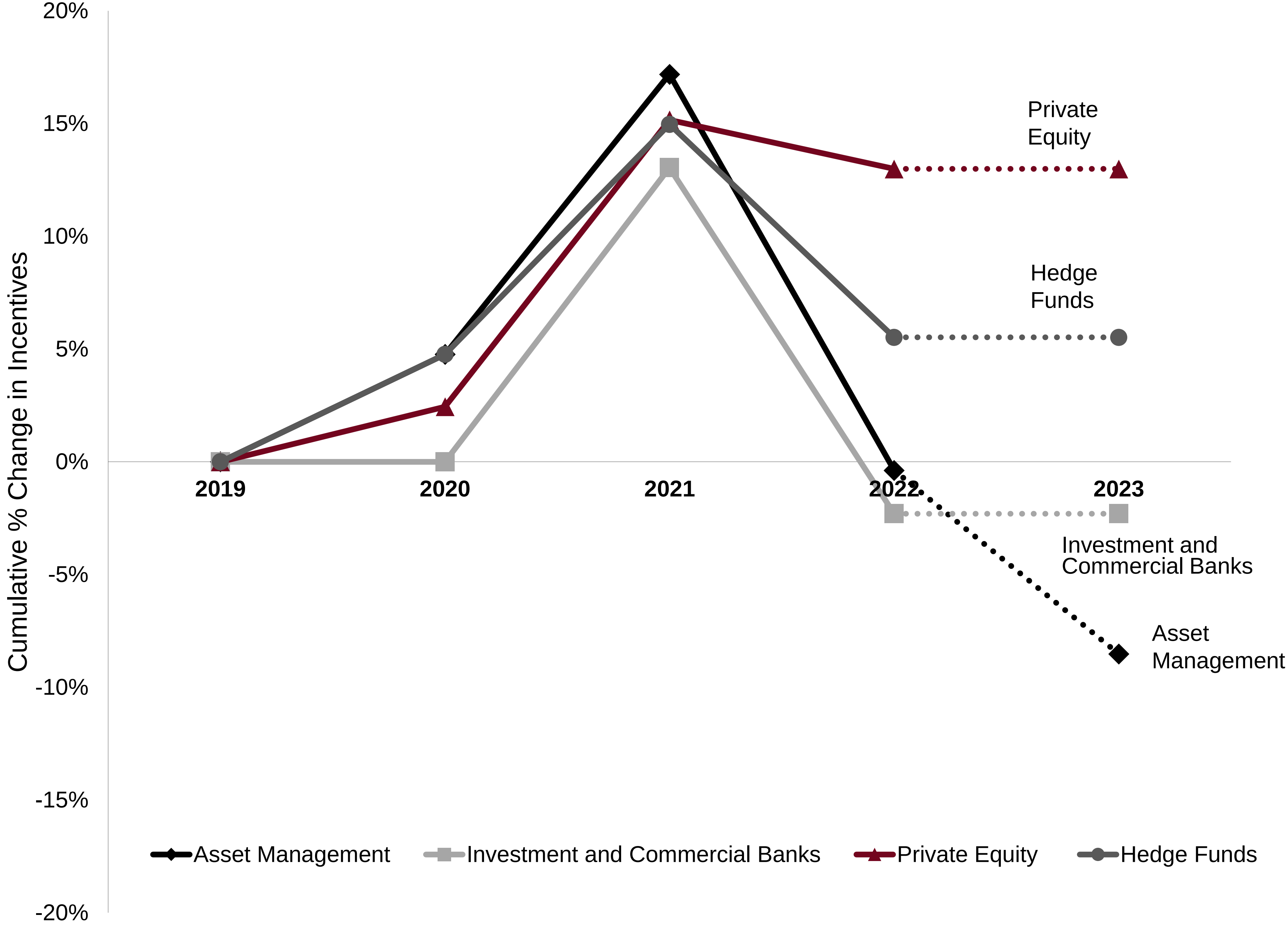
- Base and bonus levels mostly stable. Firm/fund scale drive pay magnitudes
- Meaningful incentive declines unlikely unless subsequent funds smaller
- Managing expectations will be a challenge



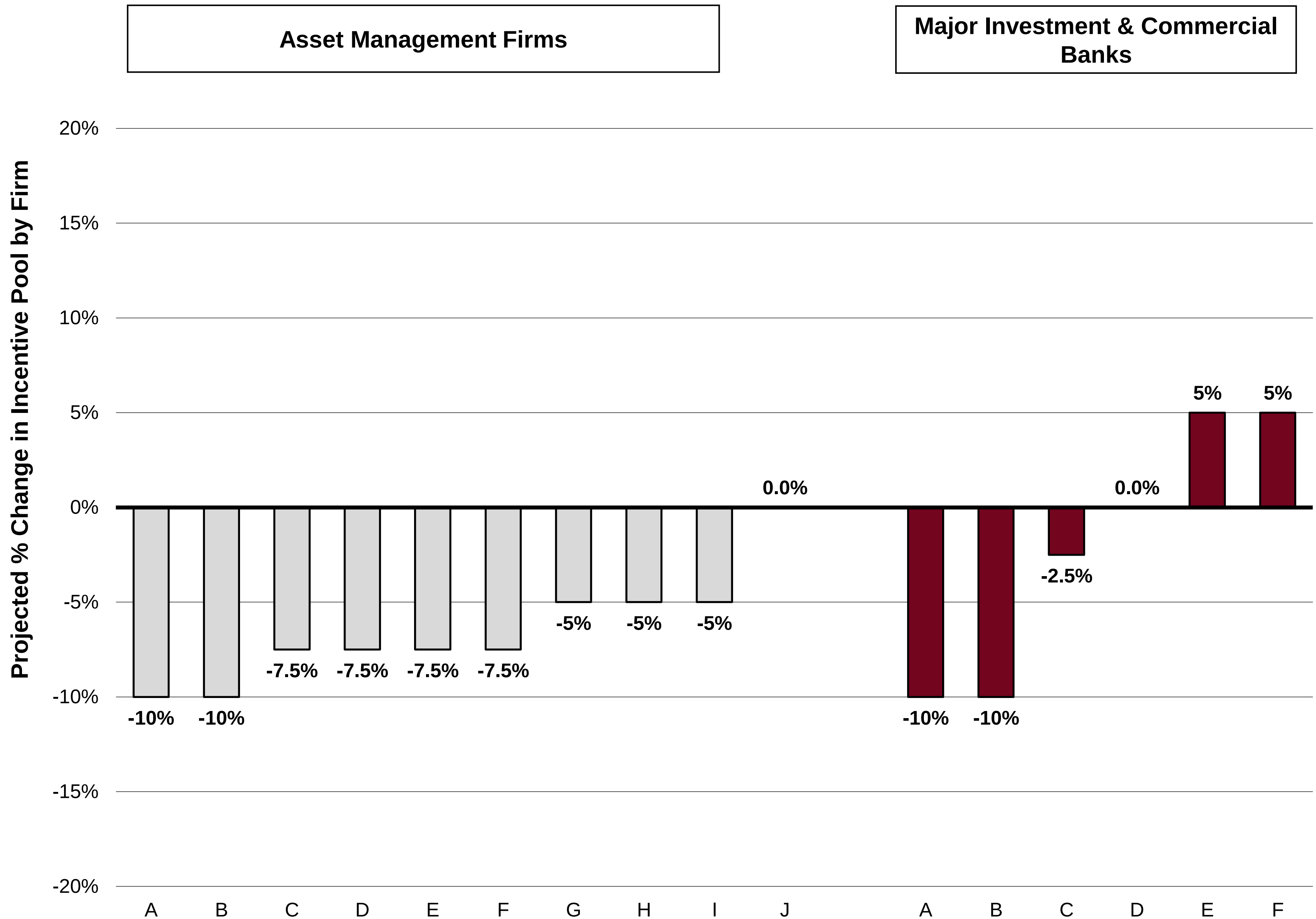
- Heightened demand for Private Credit talent
- Venture capital fundraising strained
- Borrowing costs suppress buyout activity

- Exit volume up in Q3
- Vesting schedules and GP commitment in focus
- Shared carry pools increasing in prevalence

Incentive Trend by Business Segment



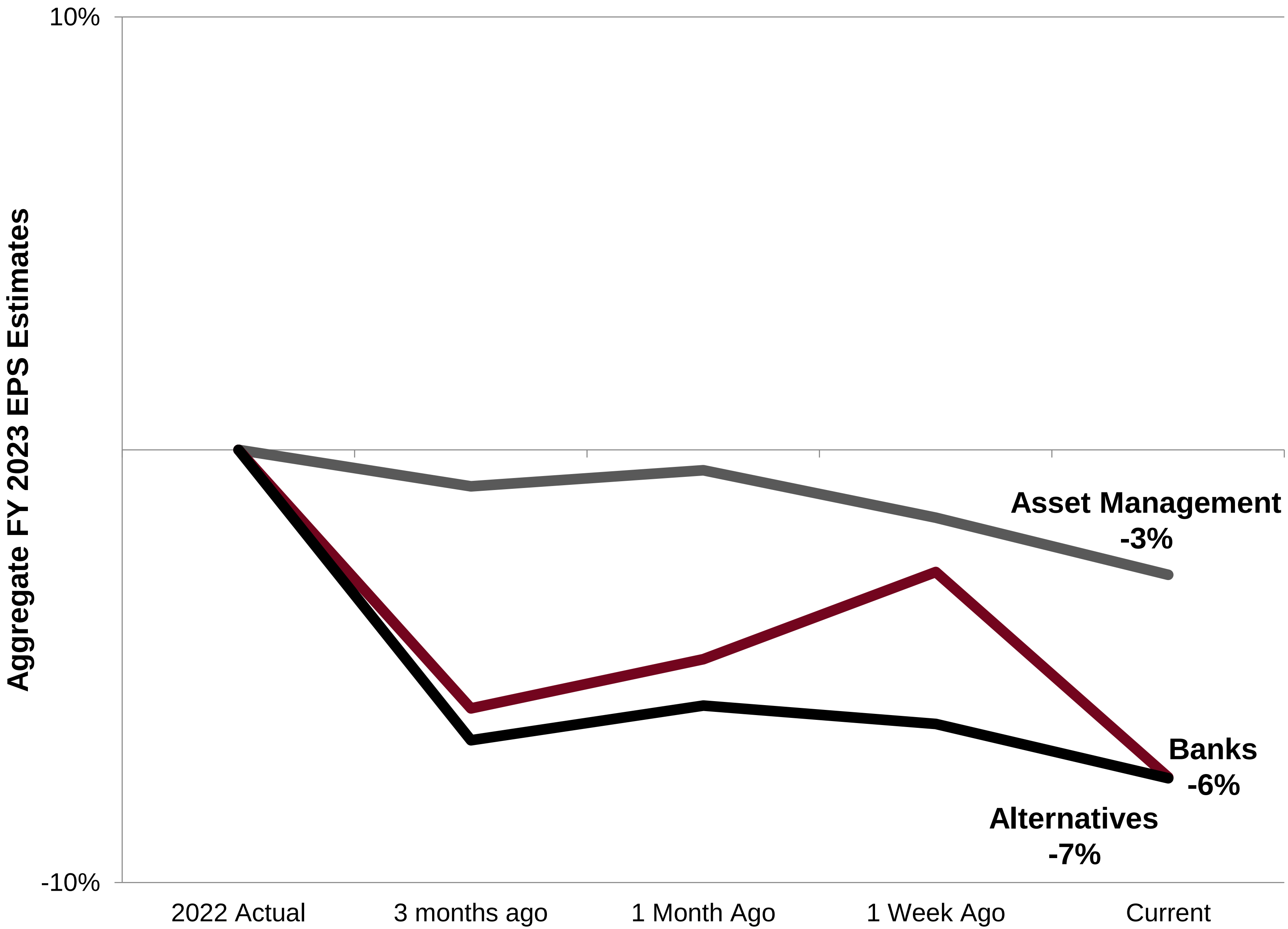
Projected % Change in Year-End Incentive Pool by Firm*



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

Analyst Estimated EPS Trend

- Analyst estimates trend downward across all sectors
- 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**