

Johnson Associates

Financial Services Compensation

Second Quarter Trends and Year-End Projections

August 8, 2024

Financial Services: 2024 Year-End Projections

Johnson Associates projects year-end incentives to be higher across almost all sectors

Projections: Traditional asset management boosted by market appreciation and stabilizing flows. Hedge fund incentives rise on inflows and strong performance. Investment banking higher as capital markets activity rebounds from multi-year lows. Illiquid alternatives flat to up modestly despite challenging fundraising. Headcount down 2% - 4% from 2023 across financial services.

Caveat: Equity markets have recently signaled the economy is softening partially due to delay in interest rate cuts. Second half of year may be more volatile and uncertain.

Traditional Asset Management

Incentives up 5% to 10%

- Equity markets drive AUM and revenues higher
- Equity flows stabilize
- ETFs a strategic initiative despite declining fee rates
- Focus on sales compensation as firms seek organic growth and stickier assets
- Diversifying a key priority (i.e., alternatives, wealth management, technology platforms)
- Firms struggle to right-size headcount and talent composition

Alternatives

Incentives flat to +10%

- Most illiquid strategies up moderately. Private credit in “bubble”
- Private equity exits increasing as LPs push for capital returns
- Both record dry powder and elongated fundraising
- Largest firms (\$50B+ AUM) obtain nearly half of all assets raised
- Family offices and endowments build out investment teams with particular focus on alternatives
- Hedge fund performance up. Increased hiring in Asia and Middle East

Investment Banking & Insurance

Incentives up broadly

- Advisory remains below multi-year norms but momentum gaining
- Sharp increases in underwriting underscores optimistic outlook
- Equities trading stronger among client “re-risking”, fixed income gains
- Investment and wealth management boosted by markets and client flows
- Lower credit loss provisions signals healthier economy
- Insurance firms focus on expense management and increasing efficiency
- Insurance incentives flat to up slightly

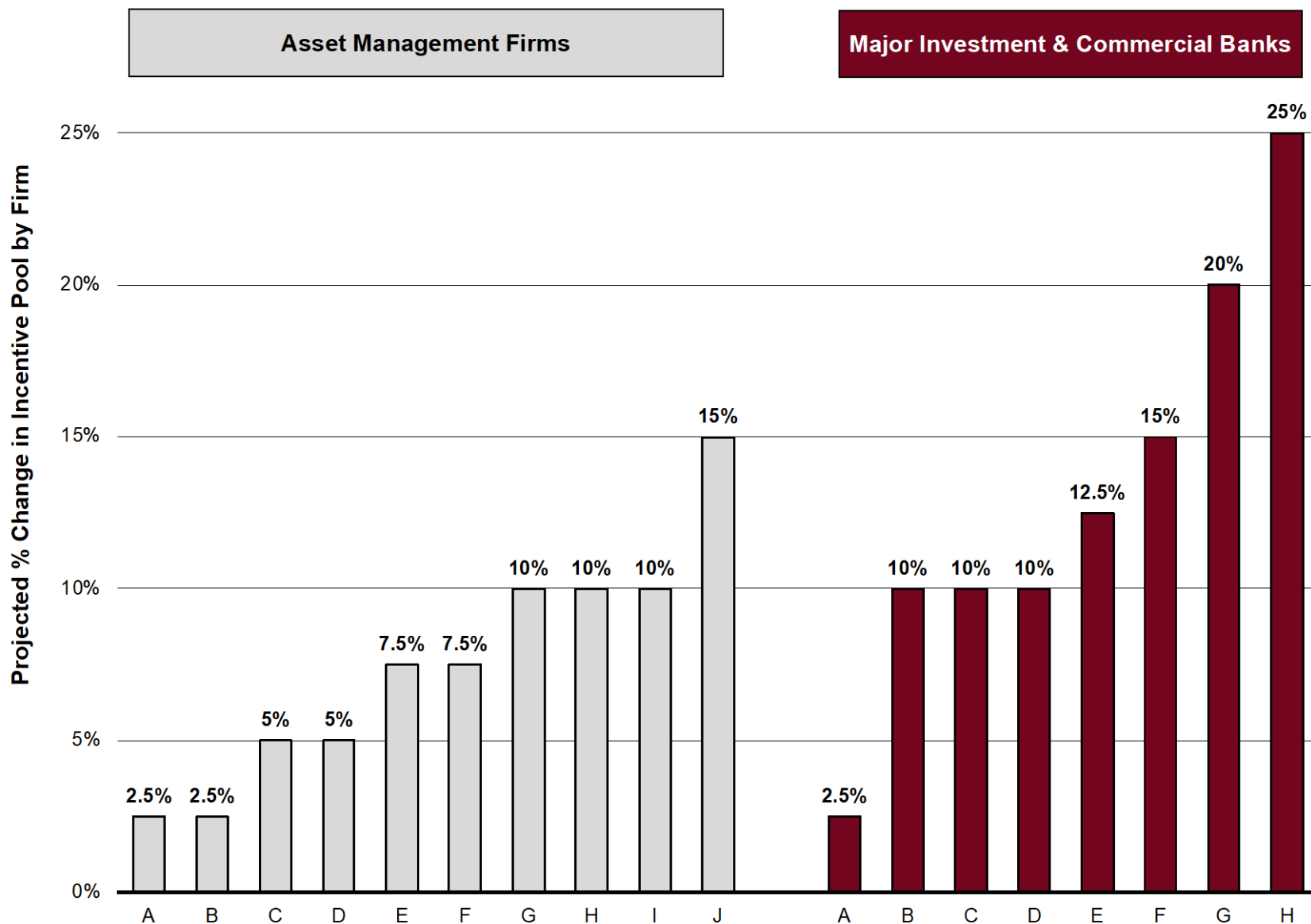
Projected 2024 Incentive Funding

Sector	% Change from 2023	Commentary
Hedge Funds	+5% to +15%	Stronger performance across most strategies; inflows
Asset Management	+5% to +10%	Market appreciation and stabilizing flows
Wealth Management	+5% to +10%	Inflows and strong investment performance; hot sector
Illiquid Alternatives*	Flat to +10%	Pressure from other sectors push incentives higher despite fundraising challenges
Insurance	Flat to +5%	Segment growth and expense management
Investment & Commercial Banking		
Debt Underwriting	+25% to +35%	Higher volumes driven by investment grade issuances
Equity Underwriting	+20% to +30%	IPO market has already raised more than all of 2023
Equity Sales & Trading	+10% to +15%	Investors “re-risking” upon market appreciation
Firm Management	+5% to +15%	All business segments rise; credit loss provisions drop
Fixed Income Sales & Trading	+5% to +10%	Higher client activity but lags equities trading
Corporate Staff	+5% to +10%	Incentives up; headcount lower in some back-office functions
Advisory	Flat to +5%	Slump continues but pipeline optimistic
Retail / Commercial	-5% to Flat	Commercial lending lower and real estate remains a concern

*Applies to total incentive, excludes carried interest

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

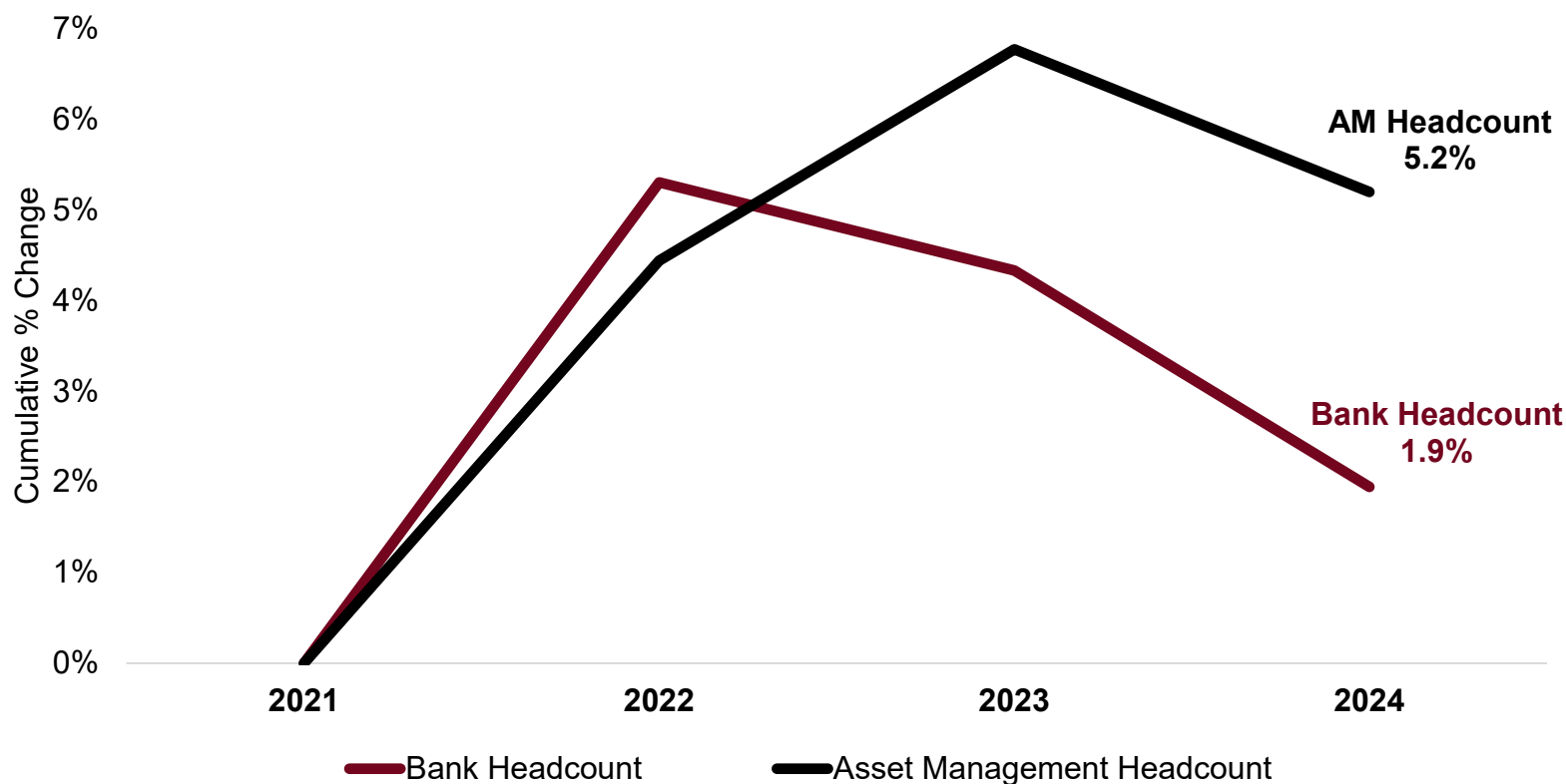
- Firm-by-firm incentive pools trending higher across asset management and investment and commercial banking



*6 months actual data with projection for remainder of year

Major Bank and Asset Management Staffing Trends

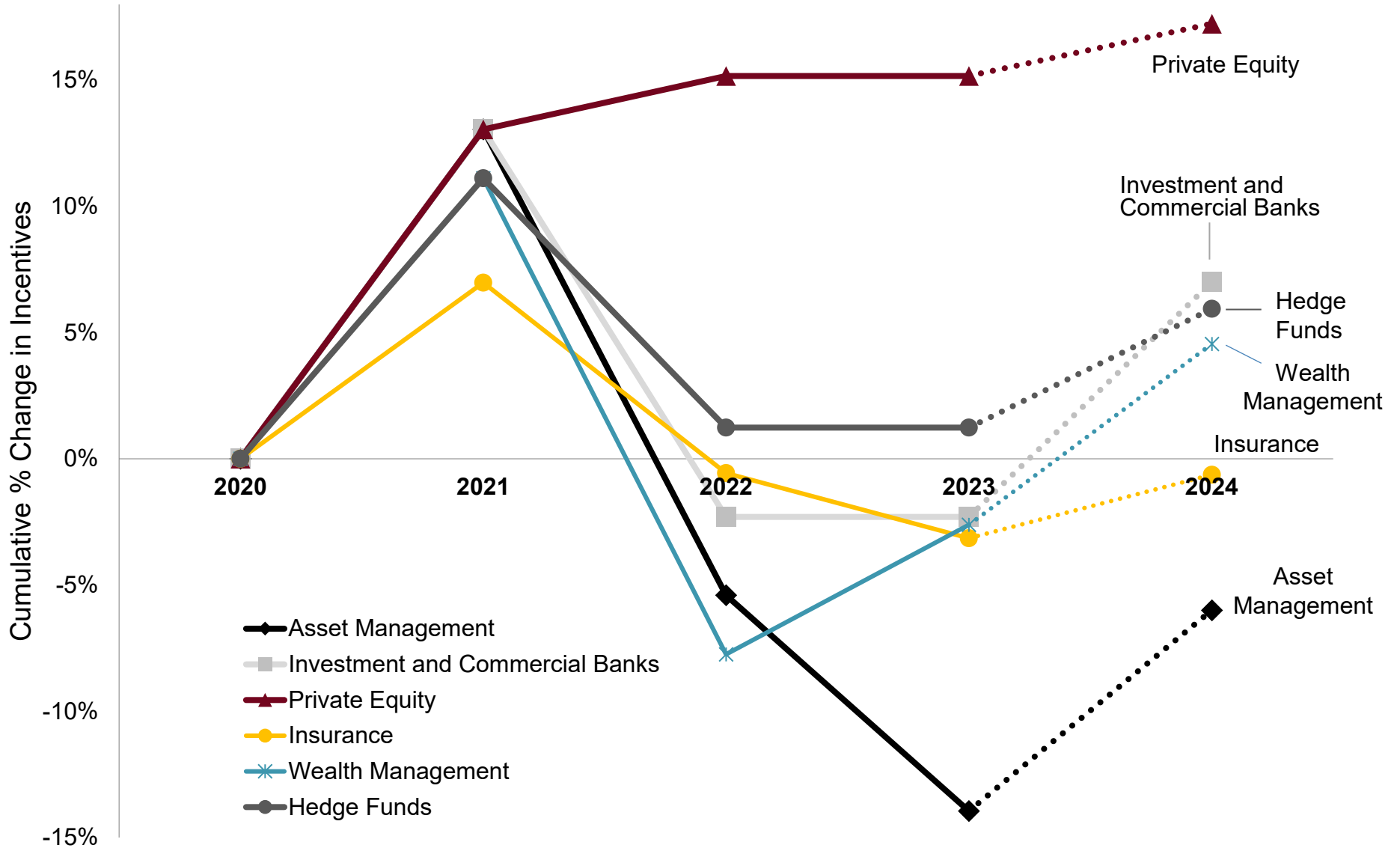
- **Swift post-pandemic economic recovery and strong capital markets created staffing needs**
 - 2021 was compensation apex fueled by near-zero interest rates, record-high markets, and strong client demand
 - “War for Talent” and most firms increased headcount; voluntary turnover hit decade highs
- **Post-2021 staffing levels delinked from business results for major banks and asset management firms**
 - Banks and asset management firms expanded headcount throughout 2021 and 2022 and unwound in 2023 and 2024
- **Staffing levels likely to remain flattish through year-end**
- **Headcount changes understated due to acquisitions and new businesses**



*2024 headcount reflects average headcount YTD

Incentive Trend by Business Segment

- 2024 incentives projected to rebound from multi-year downward trend



YTD Stock Performance Across Sectors

- Markets sending clear signals across sectors

