

Johnson Associates

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

November 12, 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 active ETF inflows. Hedge funds rise on inflows and strong performance. Investment banking higher led by equities trading and debt underwriting. Small to mid-sized illiquid alternatives flat to up modestly while largest funds up more despite fundraising challenges. Geopolitical issues largest risk variable into year-end.

Traditional Asset Management

Incentives up 7% to 12%

- Equity market appreciation drives revenues higher
- Active / alpha generating ETFs attract flows and charge higher fees than passive ETFs
- Fixed income incentives up moderately
- Alternatives a critical strategic initiative at most of the largest firms
- Technology platforms help drive operational efficiencies
- Headcount flat as firms slow hiring and voluntary turnover declines
- Volatility in Q3 seen as “blip”, markets remain resilient

Alternatives

Incentives up 5% to 15%

- Largest funds, buoyed by existing scale, to increase incentives
- Small and mid-sized funds up slightly on tepid fundraising
- Private credit boom continues. Surge in competitive market for talent
- Elongated fundraising cycles, delayed exits, and lower deal volume
- Secondaries “hot” sector as GPs seek liquidity in slow IPO / M&A environment
- Hedge fund / prop trading incentives up on inflows and strong performance
- Event-driven and equities-focused hedge funds outperform

Investment Banking & Insurance

Incentives up broadly

- Advisory up slightly but optimism grows for 2025 on strong backlog
- Significant jump in debt underwriting and equities trading
- Market volatility and higher client volume boosts trading revenues
- Investment and wealth management boosted by markets and client flows
- Lower credit loss provisions in retail / commercial amidst “soft landing”
- Insurance firms cut operating expenses to focus on efficiencies
- Insurance investment performance lifts results
- Insurance incentives up moderately

Projected 2024 Incentive Funding

Sector	% Change from 2023	Commentary
Hedge Funds	+5% to +15%	Positive flows. Equity and event-driven funds outperform
Asset Management	+7% to +12%	Market appreciation, active ETF and alternatives inflows
Wealth Management	+7% to +12%	Inflows and market appreciation; strategic priority for banks
Illiquid Alternatives*		
Private Equity	+5%	Smaller, single strategy funds “flat-ish” while larger funds up
Private Credit	+10%+	Hottest sector and talent market highly competitive
Real Estate	Flat	Market has bottomed after multi-year downturn
Insurance	+5% to +10%	Growth and expense management; L&A / Investments outperform
Investment & Commercial Banking		
Debt Underwriting	+25% to +35%	Revenues booming on debt issuance growth
Equity Underwriting	+15% to +25%	IPO market slow but revenues up significantly vs. poor 2023
Equity Sales & Trading	+15% to +20%	Market volatility boosts client activity
Firm Management	+10% to +15%	All business segments rise; credit loss provisions drop
Fixed Income Sales & Trading	+5% to +10%	Commodities and currencies trading up modestly
Corporate Staff	+5% to +10%	Incentive pools move in line with overall business results
Advisory	+5% to +10%	M&A activity slow but backlogs gain momentum
Retail / Commercial	-5% to Flat	Lending and credit loss provisions down

*Applies to total incentive, excludes carried interest

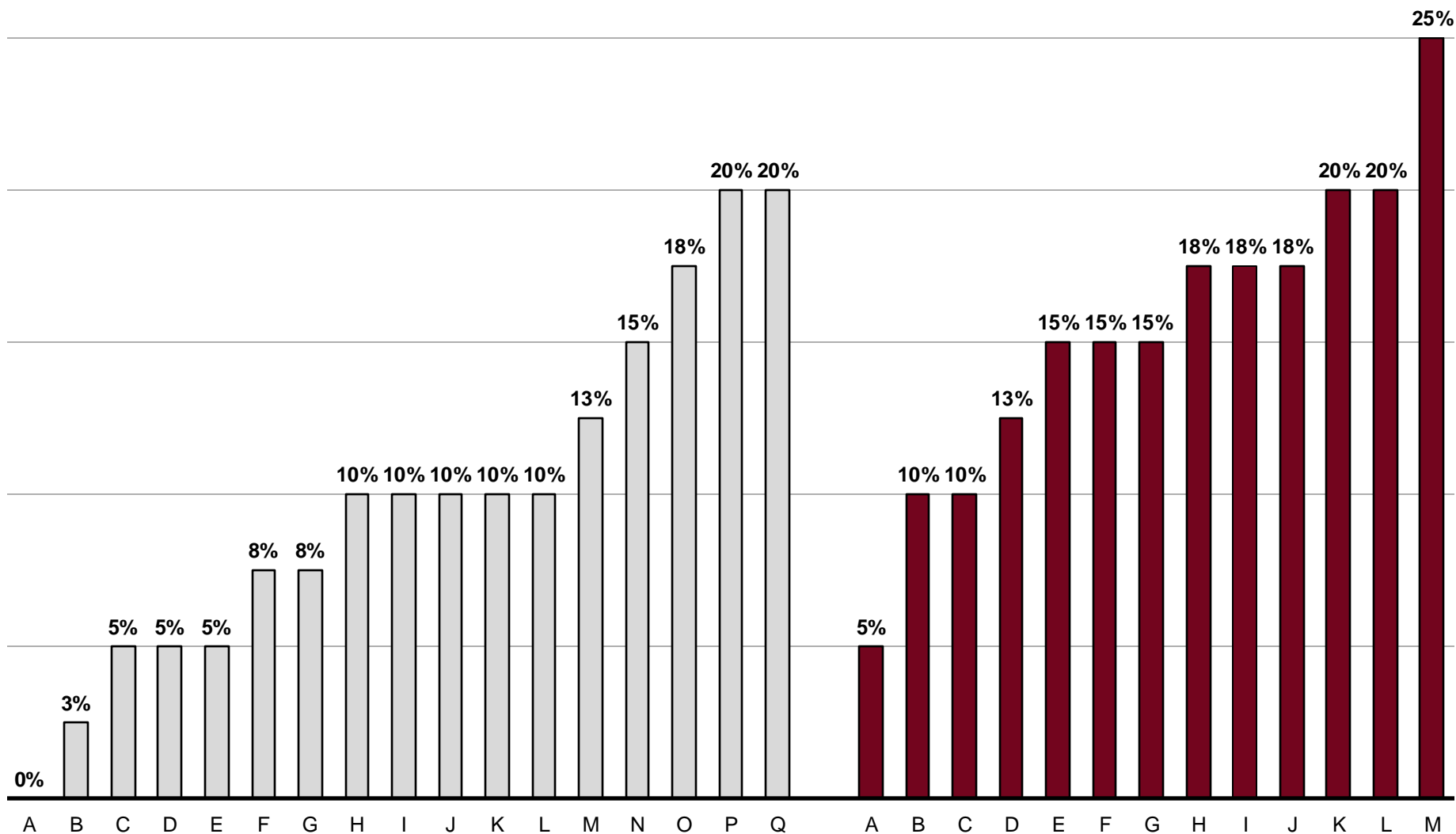
Projected % Change in Year-End Incentive Pool by Firm*

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

Asset Management

Major Investment & Commercial Banks

Projected % Change in Incentive Pool by Firm



*9 months actual data with projection for remainder of year

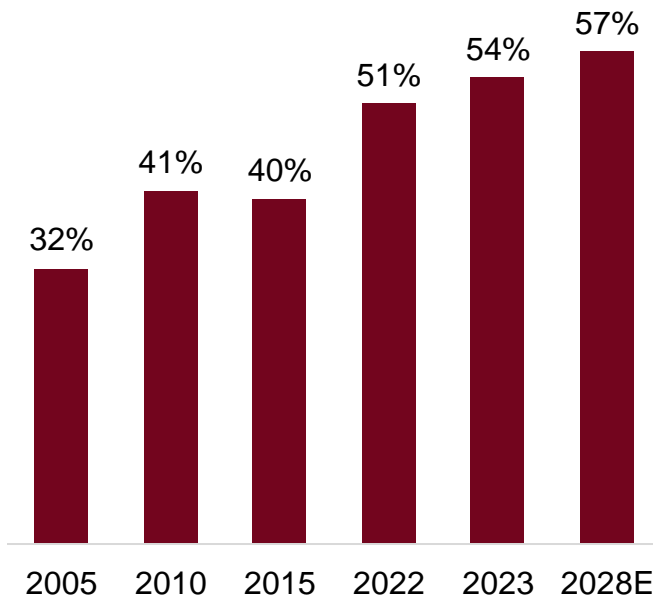
US & International firms included for both asset management and banks

Alternatives in Focus

- **Alternatives are a strategic priority for many financial services firms**
 - Many firms, including those who did not traditionally offer alternatives, continue building out alternatives strategies
 - Institutional and retail investor demand for alternatives growing
 - Alternatives have higher fee levels and provide diversifying revenue streams

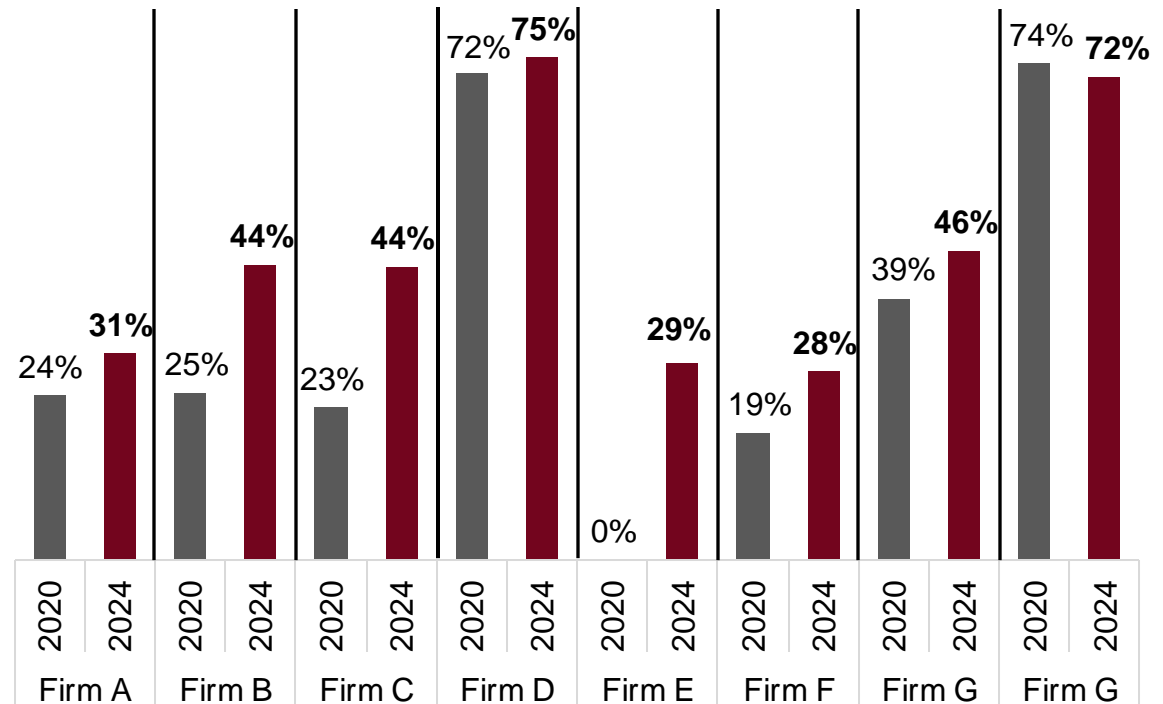
- **Private credit “hottest” sector within alternatives**
 - Private credit proliferation across multi-strat alternatives, traditional asset managers, large banks, and insurance companies
 - Banking regulation shifted momentum to private credit firms
 - Some major banks have formed partnerships with alternatives firms to scale direct lending capabilities
 - Compensation pressures as talent market highly competitive

Alternatives as a % of Total Asset Management Revenue



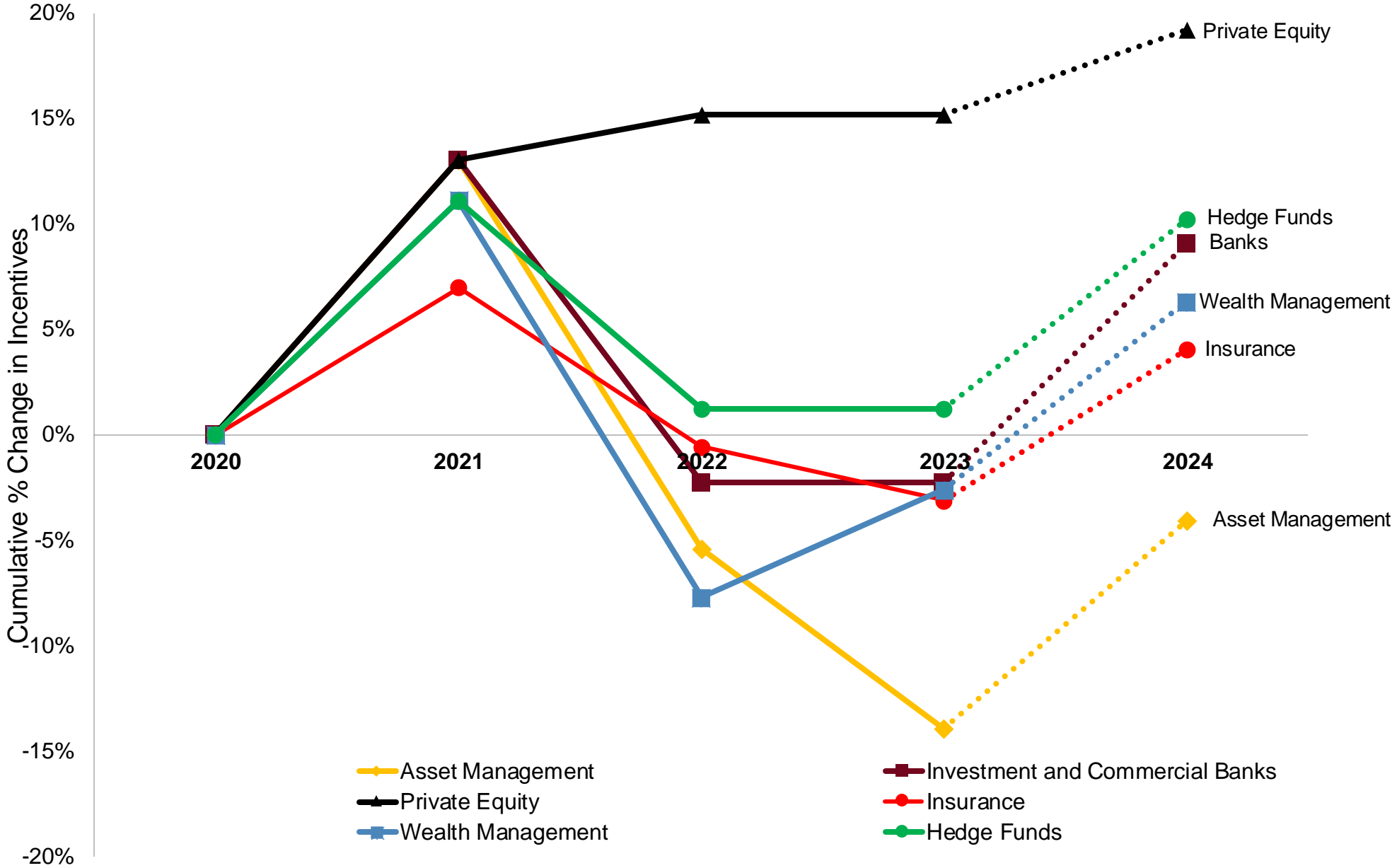
Alternatives include PE, Credit, Real Estate, Infrastructure, HF, Commodities
 Source: BCG 2024 Global Asset Management Report

Private Credit as a % of Public Alternative Firms' AUM



Incentive Trend by Business Segment

2024 incentives projected to rebound from multi-year downward trend



YTD Stock Performance Across Sectors

- Market sending clear signals across sectors

