

Johnson Associates

Financial Services Compensation

Second Quarter Trends and Year-End Projections

August 4, 2022

Financial Services: Year-End Projections

After the second quarter, Johnson Associates projects a year-end decrease in incentive compensation across financial services. Most sectors, and some significantly, fall from exceptionally strong 2021. Inflation will have meaningful impact on real compensation outcomes. These factors will make year-end decisions more complicated and variable.

Traditional Asset Management

Incentives down on market decline

- AUM declines significantly on market drop
- Outflows in active equities while fixed income, multi-asset, and cash management balances stable
- Alternative investment strategy buildout and acquisitions accelerate
- Hiring decelerates as headcount evaluated and costs tempered
- Fin-tech / crypto recruiting pressures dissipate as hiring curtailed at many firms

Alternative Investments

Private equity incentives fall while hedge funds flat

- Hedge funds flat with variation by strategy on positive inflows as investors seek yield in volatile market
- Global macro, quantitative, and credit strategies outperform
- Largest private equity funds flattish; small and mid-sized funds fall on fundraising slowdown
- Private equity, real estate, and venture capital fundraising and dealmaking down substantially from 2021

Investment and Commercial Banking

Incentives down as profits fall sharply from booming 2021

- Profits fall as investment banking falters and credit loss provisions increase with lending volume
- Led by drastic declines in equity capital markets, investment banking down substantially
- Advisory down from record 2021 as weak markets and uncertain economic outlook slows M&A
- Market volatility and increased client activity boost trading, particularly in fixed income
- Higher interest rates and loan growth boost net interest income
- Headcount up broadly versus 2021 and hiring slowdown / workforce reductions anticipated through year-end
- Geopolitical conflicts, interest rates, market volatility, and higher inflation are key drivers

Projected 2022 Incentive Funding

- Headcount-adjusted basis (i.e. felt impact). Excludes impact from inflation (i.e. 8%+)

Traditional Asset Management & Alternatives

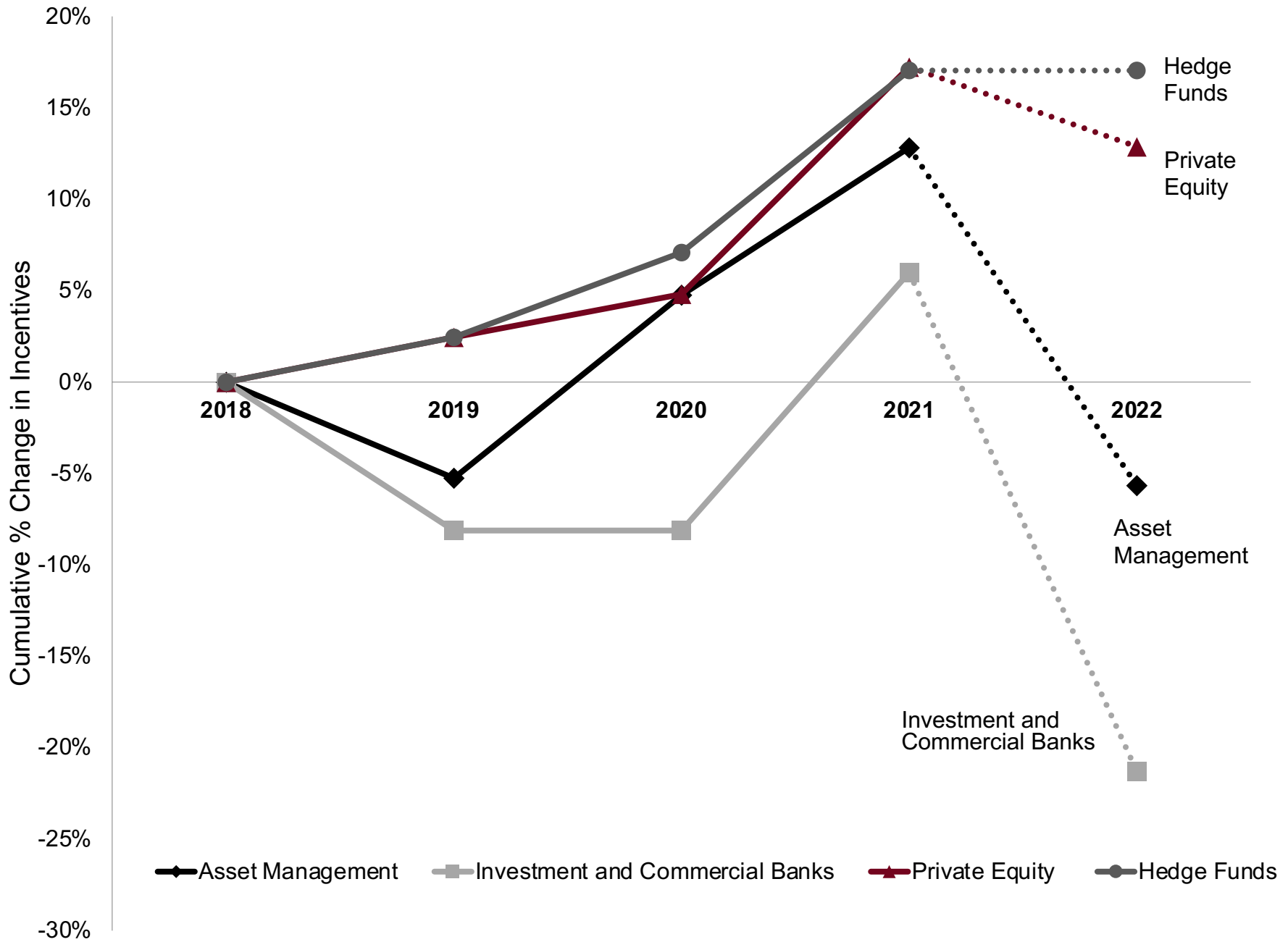
Sector / Business	% Change from 2021	
Asset Management	-15% to -20%	
AUM and revenue falls on market decline and active equity outflows. Bond market down in rare occurrence		
Hedge Funds	Macro / Quant Equity	+10% to +20%+ -10% to -15%
Inflows continue as hedge fund performance outperforms broader markets. Quantitative and macro strategies lead		
Private Equity*	Mega Mid / Large	Flat to -5% -5% to -10%
Fundraising and dealmaking down significantly versus 2021		
High Net Worth	-10% to -15%	
Positive flows offset by poor market performance		

Investment & Commercial Banking

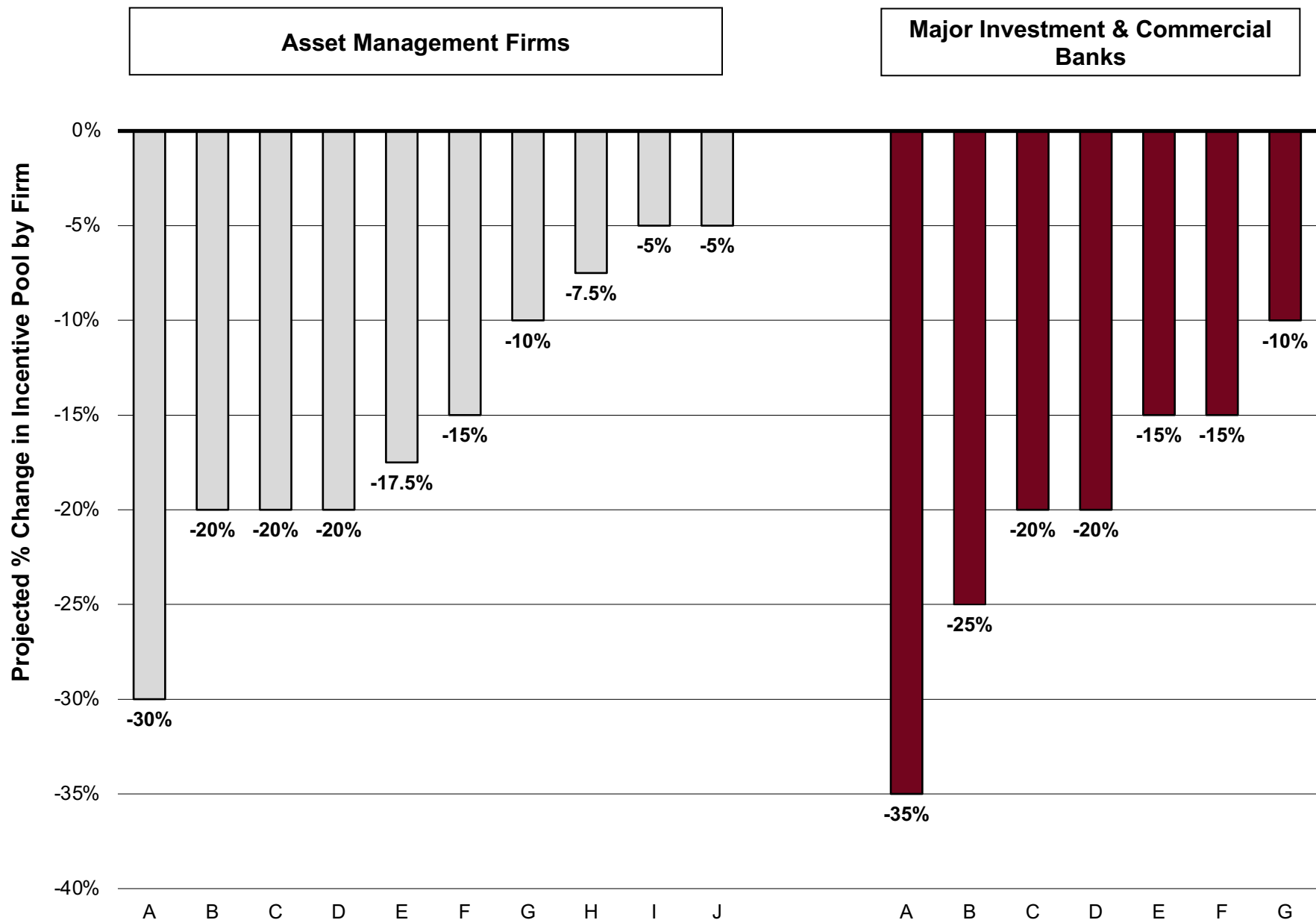
Sector / Business	% Change from 2021	
Firm Management Corporate Staff	-20% to -25% -15% to -20%	
Mixed performance across business lines but profits down. Trading outperforms while investment banking falls sharply		
Investment Banking	Advisory Underwriting	-20% to -25% -40% to -45%+
Revenues for equity underwriting significantly lower (i.e., down 75%+) and debt underwriting revenues down 30%+. Advisory falls after strong 2021		
Sales & Trading	Equities Fixed Income	+5% to +10% +15% to +20%
Trading up as market volatility led to higher client activity. Fixed income up significantly from weaker 2021		
Retail & Commercial Banking	Flat	
Loan increases and higher rates boost net interest income		

*Applies to incentive and equity, excludes carry

Incentive Trend by Business Segment



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

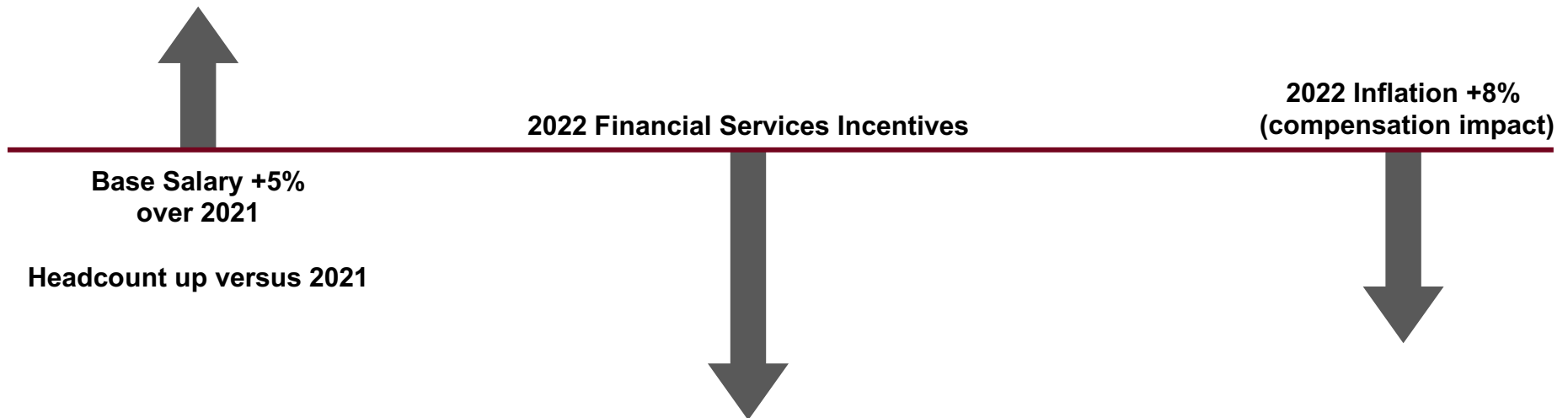


* 6 months actual data with projection for remainder of year

Potential 2022 Year-End Landscape

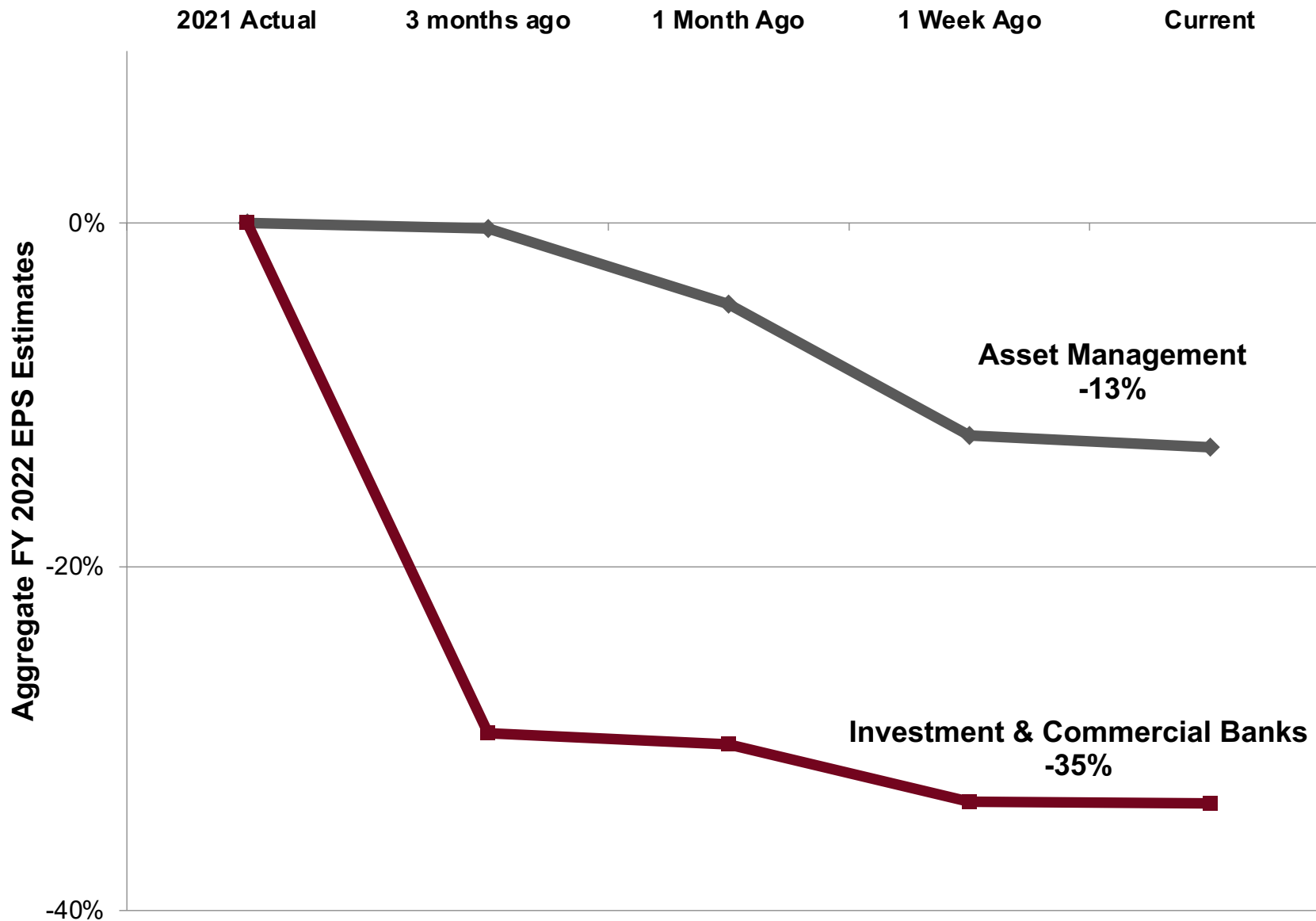
Key Issues in Tumultuous Environment

- Divergence across financial services as asset management and investment banking incentives down significantly while largest alternative firms and hedge funds flattish
- “War for talent” slowing and headcount will decrease as firms scale back after increasing headcount in 2021 and into 2022. Candidate expectations reflecting 2021 market levels creates recruiting challenges. Significant differentiation to reward / retain top talent
- Base salary increases 5% for second straight year. While tempting to revert to 3%-3.5%, ultimately more costly and potentially damaging. Firms balancing inflation, costs, significant incentive declines and headcount
- Compensation impact likely over both 2022 and 2023. Importantly, year-end 2022 decisions should consider at least a two-year timeframe



Analyst Estimated EPS Trend

- Analyst estimates for banks fall substantially 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, underperforming the S&P 500 year-to-date

