Johnson Associates

Financial Services Compensation

Third Quarter Trends and Year-End Projections

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Financial Services: Year-End Projections

After the third quarter, Johnson Associates projects a sharp year-end decrease in incentive compensation across financial services. Most sectors fall from exceptionally strong 2021. Inflation further impacts real compensation outcomes. These factors make year-end decisions more complicated and variable.

Traditional Asset Management

Incentives down significantly on market decline

- AUM declines significantly on market drop
- Outflows in active equities while fixed income and cash management see inflows
- Bond market down significantly in rare occurrence
- Firms continue building out alternatives and technology platform strategies
- Hiring slowdown / layoffs, pressure to cut costs increases

Alternative Investments

Private equity and hedge fund incentives fall

- Hedge funds down moderately with variation by strategy as outflows persist
- Multi-strategy and global macro funds outperform
- Largest private equity funds down modestly; small and mid-sized funds fall on fundraising slowdown and decline in portfolio company valuations
- Private equity and venture capital fundraising and dealmaking down substantially from 2021

Investment and Commercial Banking

Incentives down as profits fall sharply from 2021

- Investment banking slumps and credit loss provisions increase
- Drastic declines in equity capital markets
- Advisory down from record 2021 as economic environment slows M&A activity
- Fixed income trading “bright spot” on heightened client activity across choppy markets
- Higher interest rates and loan growth boost net interest income
- Headcount up broadly versus 2021 but hiring slowdown / workforce reductions coming
- Geopolitical conflicts, recession potential, interest rates, market declines, and 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

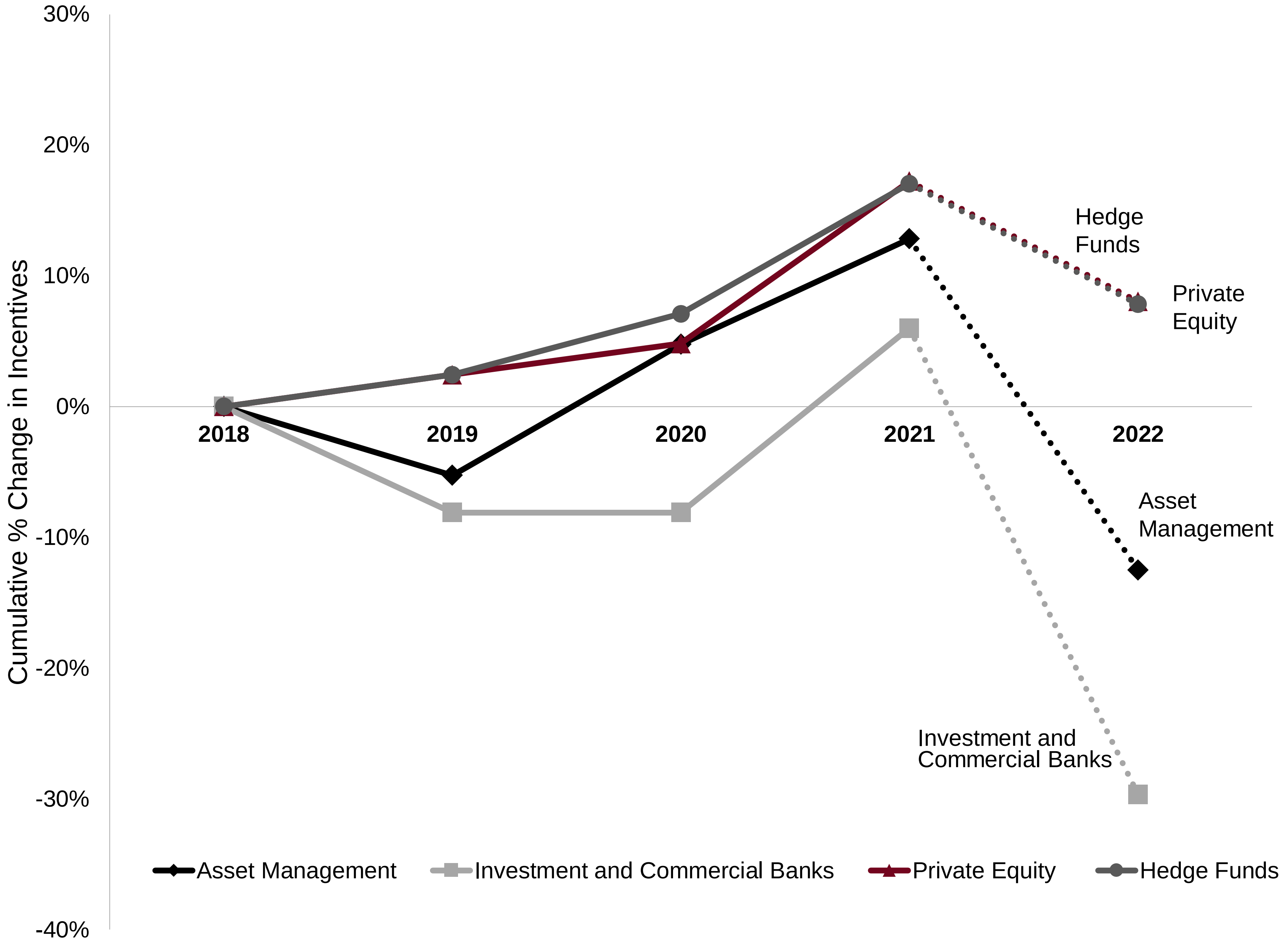
Sector / Business		% Change from 2021
Asset Management		**-20% to -25%**
AUM and revenue falls on market decline and equity outflows. Bond market remains down significantly in rare occurrence		
Hedge Funds	**Macro** **Equities**	**+10% to +20%** **-15% to -20%**
Multi-strat and macro strategies outperform and see inflows while equity and credit strategies down		
Private Equity*	**Mega** **Mid / Large**	**-5% to -10%** **-10% to -15%**
Fundraising and dealmaking down significantly versus 2021		
High Net Worth		**-15% to -20%**
Weak equities and fixed income market performance		

Investment & Commercial Banking

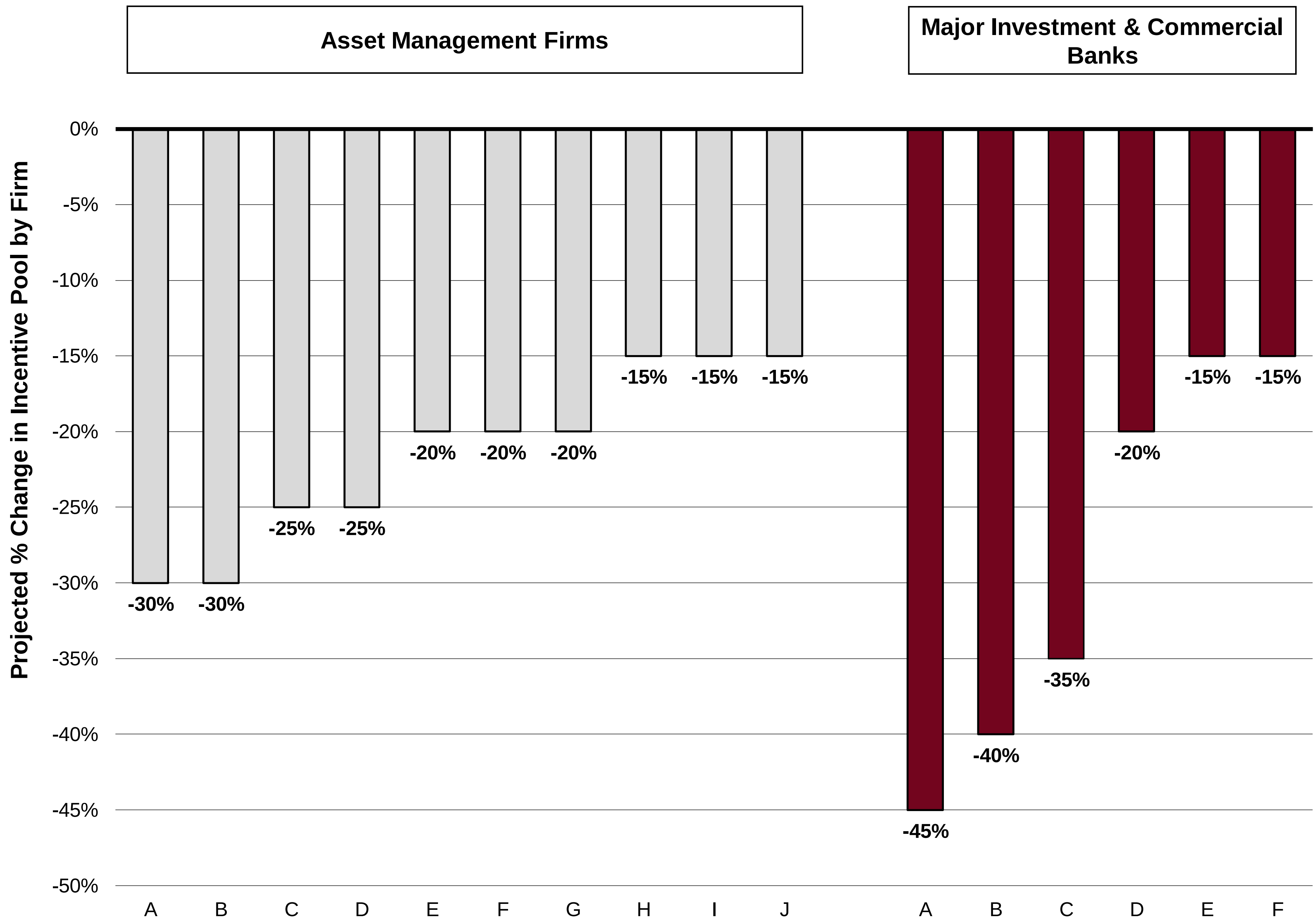
Sector / Business		% Change from 2021
Firm Management **Corporate Staff**		**-25% to -30%** **-20% to -25%**
Mixed performance across business lines but profits down. Trading outperforms while investment banking falls sharply		
Investment Banking	**Advisory** **Underwriting**	**-15% to -20%** **-40% to -45%+**
Revenues for equity underwriting significantly lower (i.e., down 75%+) and debt underwriting revenues down 35%+. Advisory falls after strong 2021		
Sales & Trading	**Equities** **Fixed Income**	**Flat** **+15% to +20%**
Trading up as market volatility led to higher client activity. Fixed income up significantly from weaker 2021		
Retail & Commercial Banking		**-10%**
Commercial lending increases and higher rates boost net interest income. Provisions for credit losses increase		

*Applies to incentive and equity, excludes carry

Incentive Trend by Business Segment



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

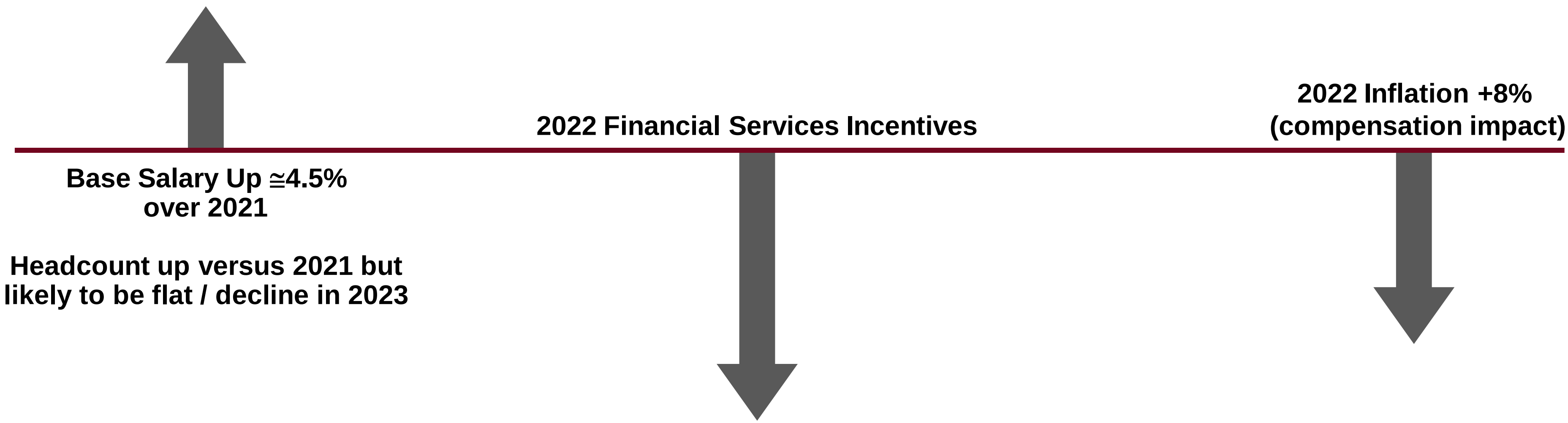


** 9 months actual data with projection for remainder of year*

Potential 2022 Year-End Landscape

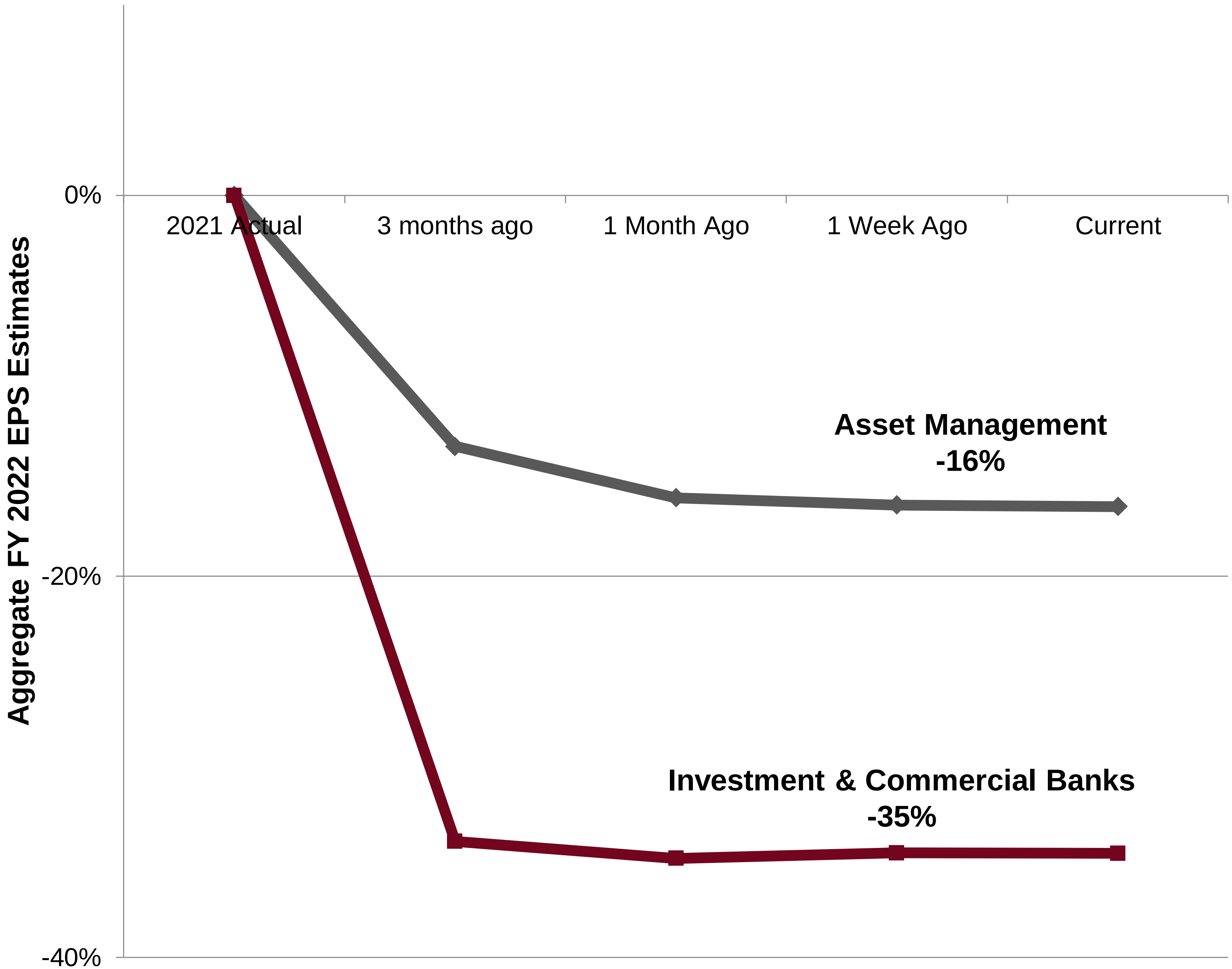
Key Issues in Uncertain Environment

- **Some divergence across financial services as asset management and investment banking incentives down significantly while largest alternative firms and hedge funds down moderately**
- **Hiring slows significantly. Many firms reducing hiring plans and some layoffs as business results down and cost-cutting pressures mount**
- **Base salary increases 4% to 5% for second straight year. Firms looking to meet market. For public companies, negative compensation impact further exacerbated by equity awards below original grant value**
- **Compensation impact over both 2022 and 2023. Year-end 2022 decisions should consider 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

- **Asset managers and alternatives underperform the S&P 500 year-to-date while banks have recovered**