Johnson Associates

Financial Services Compensation

First Quarter Trends and Year-End Projections

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Financial Services: 2024 Year-End Projections

After the first quarter, Johnson Associates projects incentives to be <u>up moderately</u> across most sectors

Traditional asset management up from equity markets appreciation. Hedge funds incentives up on strong performance and inflows. Investment banking incentives higher as most business segments rebound from multi-year lows. Illiquid alternatives flat to up modestly as fundraising challenges persist for third consecutive year. Headcount down 2% to 4% from 2023.

Equity markets down from 2024 peak but remain positive. Mediocre investment performance, fundraising challenges, and overstaffing impact growth in illiquid alternatives. Investment banking outlook brightens while insurance incentives projected to be flat.

Traditional Asset Management

<u>Incentives up 5%</u>

- Equity markets boost AUM and higher revenues
- Fixed income outflows offset equity ETF inflows
- Margin pressures continue and force firms to reassess costs
- Sales compensation design and magnitudes in focus
- Scaling alternatives a priority (higher and stable fees)
- Headcount will trend lower as firms focus on stabilizing margin declines

Alternatives

<u>Incentives flat to +5%</u>

- Most illiquid strategies flat to up moderately. Private credit in "bubble"
- Mediocre returns inhibit fundraising. "Dry powder" levels high
- Largest firms ($50B+ AUM) continue to dominate fundraising. Others struggle
- Family offices becoming major player (fundraising and talent)
- Hedge fund performance up across most strategies; net inflows
- Recruiting pressures have softened and some firms downsizing

Investment Banking & Insurance

<u>Incentives up across business segments</u>

- Advisory slump continues but all other business segments rebound
- Sharp increases in underwriting underscore optimistic outlook
- Equities and fixed income trading up on elevated client activity
- Investment and wealth management a critical growth initiative
- Insurance firms focus on expense management and increasing efficiency
- Interest rates boost investment returns. Slowing inflation lowers claims impact

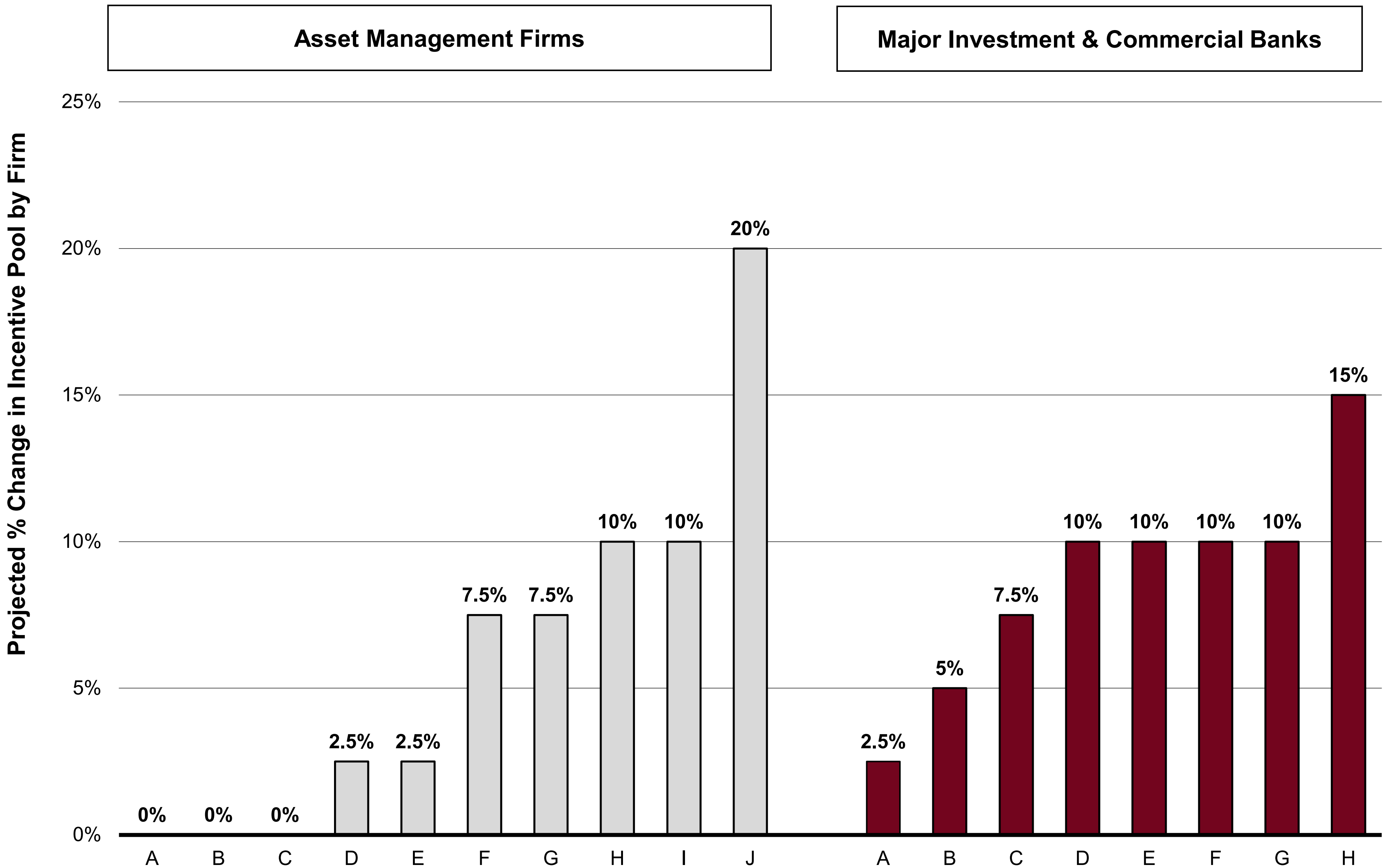
Projected 2024 Incentive Funding

Sector	% Change from 2023	Commentary
Wealth Management	+5% to +10%	Inflows and strong investment performance; hot sector
Asset Management	+5%	Market appreciation partially offset by outflows in active products
Hedge Funds	+5%	Strong returns across most strategies and net inflows
Illiquid Alternatives*	Flat to +5%	Fundraising down and staffing constraints
Insurance	Flat to +5%	Segment growth and expense management
Investment & Commercial Banking		
Debt Underwriting	+15% to +25%	Debt issuance revenues substantially higher than weak 2023
Equity Underwriting	+10% to +20%	IPO market gradually awakening
Fixed Income S&T	+10% to +20%	Higher bond and commodities trading client activity
Equities S&T	+5% to +15%	Investors move from "sidelines" into equities
Firm Management	+5% to +10%	Rebound across business segments; credit loss provisions stable
Corporate Staff	+5% to +10%	Lower headcount and flat incentive pools
Advisory	Flat	Weak performance but flat incentive pools
Retail / Commercial	-5% to Flat	Net interest income falls

*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**



3 months actual data with projection for remainder of year

Traditional Asset Management Trends: Push to Grow Alternatives

- **Traditional asset management firms have heightened efforts in recent years to scale alternatives strategies**
  - Diversify revenue and products, alternatives fee levels stable and higher than declining mutual fund fees

- **Carried interest and different compensation structures / amounts create integration challenges**

- **Recent acquisitions of alternatives firms by major traditional asset managers:**
  - BlackRock → Global Infrastructure Partners
  - AllianceBernstein → CarVal Investors
  - Franklin Resources → Lexington Partners
  - T. Rowe Price → Oak Hill Advisors

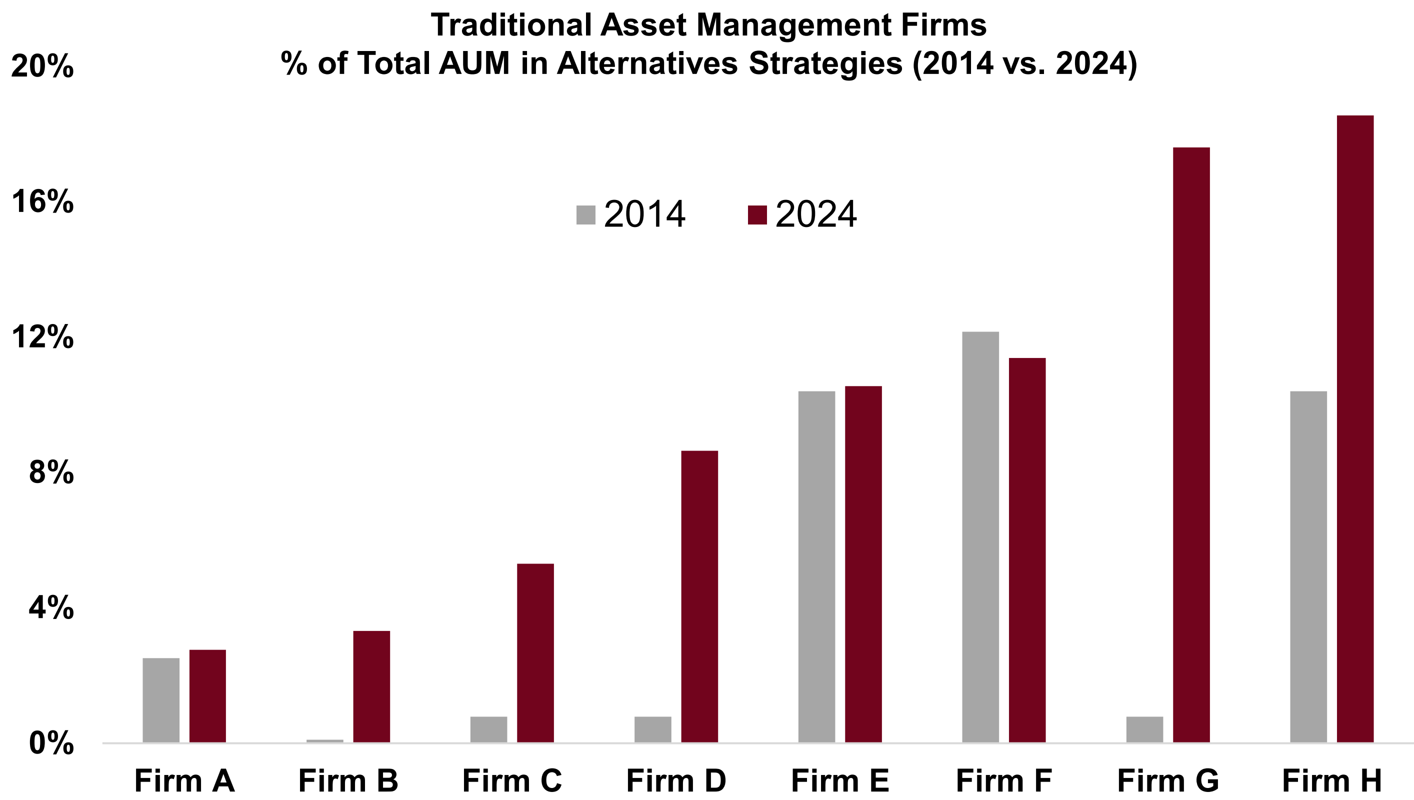


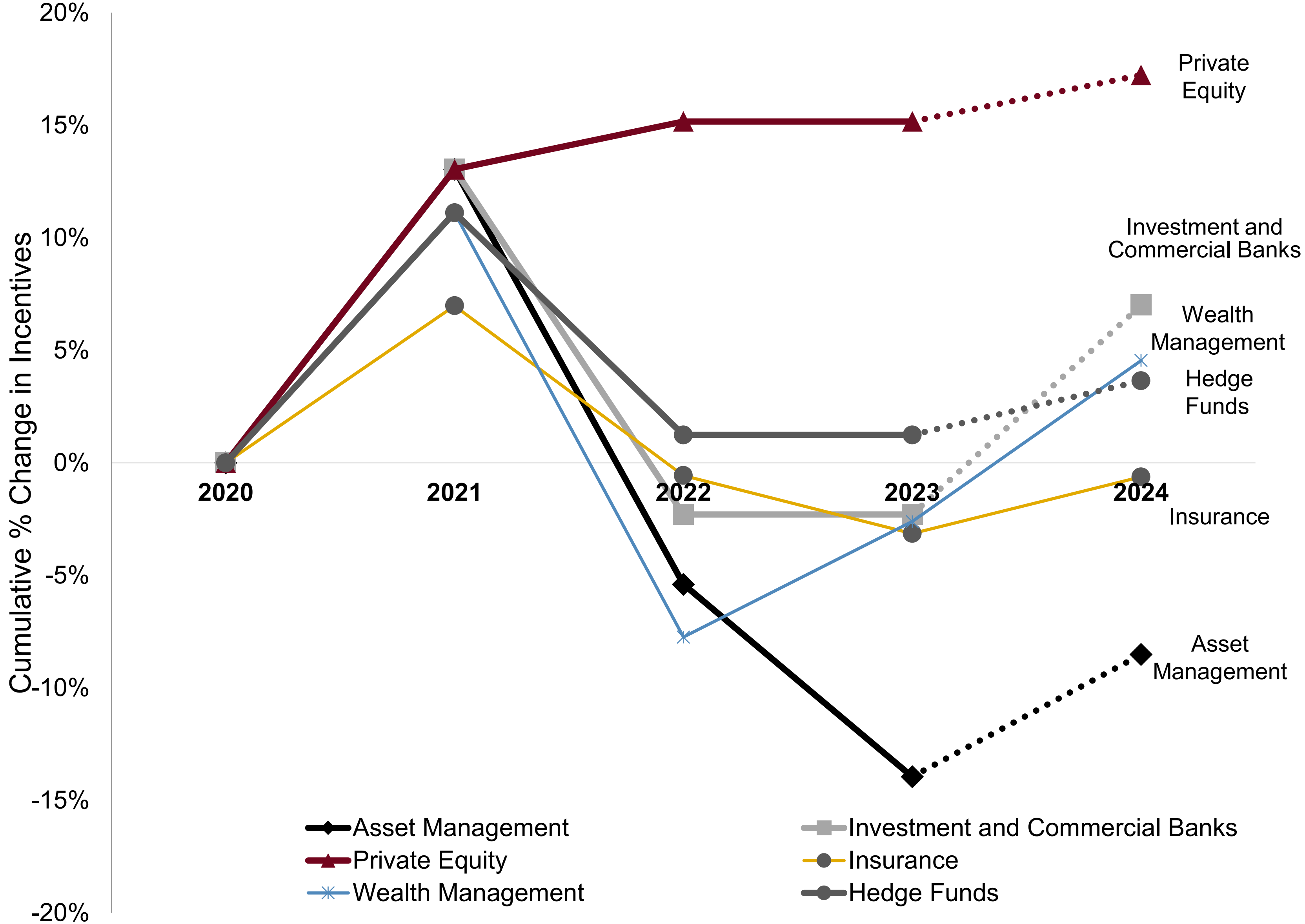
Chart reflects AUM. Given differences in fee levels, alternatives revenue as % of total revenue has increased more sharply

Illiquid Alternatives Trends: Issues and Implications

Fundraising	▪ 2023 one of toughest fundraising years in last decade. 2024 outlook similarly bleak ▪ Lower fundraising impacts carry opportunity, lower annual pay, headcount levels, and makes hiring more challenging
Headcount	▪ With fundraising challenges, smaller carry allocations if no headcount reductions
Pay Levels	▪ Annual incentives trending flat to up 5% ▪ Many current funds will not have meaningful carry payouts ▪ Perceived value of carry awards can / should be discounted by participants
Carried Interest Design	▪ Program participation and allocations continue to evolve. Public alternatives shifting more carry to teams and prioritizing fee-related earnings. Private firms more balanced ▪ Vesting and GP commitment in spotlight
Equity Programs	▪ Vehicles, participation, magnitudes, liquidity, vesting, leaver provisions, etc. ▪ Minority stakes / transactions. How to treat employees and structure go-forward compensation
Succession	▪ Founder(s) timeframe and motivation are critical factors ▪ Often 5-to-10-year process with pre-determined milestones (economic and governance related)

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**