JOHNSON ASSOCIATES, INC.

Best Practices for Compensation Benchmarking

Johnson Associates Insights on Intelligently Benchmarking Financial Services Compensation

Introduction

Most firms conduct compensation benchmarking annually to confirm their pay levels are competitive with peers and aligned with the firm's compensation philosophy. Heading into year-end discussions, HR leaders and firm management need to be confident the market data is accurate, defensible, and truly representative of both their firm and each incumbent's actual role.

Confidence in the market data can be achieved through a thoughtful benchmarking process. Hybrid / multi-faceted roles, evolving job scope, and increasingly complex organizational structures mean that standard survey data, run through a simple mathematical computation, often misses the mark. Intelligent benchmarking requires a more nuanced approach. Here, we outline our view on benchmarking best practices, and where a customized process makes the difference.

> ***Intelligent benchmarking is complicated and requires a thoughtful process***

Why a Nuanced Approach Matters

Accurate market data allows firms to make compensation decisions that promote retention and alignment. The most useful market data reflects:

Customized Market Match	Robust and Informed Data	Forward-Looking Projections	Expert Judgment
Mapped and matched on actual responsibility, not job title	Extensive data from comparable firms with knowledge of inputs	Example: Year-end 2026 projections rather than stale 2025 data	Expert judgment used to reflect market context

Standard compensation surveys reflect historical data and apply straightforward mathematical percentiles on title. A customized analysis weighs client discussions and detailed data review to isolate the compensation data most comparable to a role's real responsibilities with adjustments for firm size, business cycle, strategic direction, unique or hybrid duties, geography, and other factors a simple survey does not account for. Additionally, projected compensation levels allow firm management to make informed incentive decisions.

Fully understanding both the firm's and peers' compensation structures ensures like-for-like compensation across compensation elements. For senior roles, it is critical to understand how annual compensation is differentiated from ownership. Accurate data across each element provides helpful market insights:

Base Salary	Cash Bonus	LTI / Equity	Total Compensation
Competitive salaries / pay mix important even as firms manage total compensation	Annual bonus reflects projected incentive increases	Deferrals or regular long-term incentive / equity awards; Reflects market designs	Total annual compensation level (most manage for competitiveness)

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Our Best Practices Framework

Best practices are focused on developing customized benchmarks reflective of the firm / individual role:

1. **Market Data:** Actual annual compensation figures from peer firms, not self-reported or filled out without full context; clear understanding of annual compensation including long-term incentives / equity structures for each datapoint.
2. **Business Comparability:** Compare against similar firms with a focus on understanding business dynamics / strategy to ensure market data is reflective of the business.
3. **Role Comparability:** Match on responsibilities, not job titles. Increasingly useful at firms continue to have multi-hatted, hybrid roles.
4. **Expert Judgment:** Three parts science, one part art: smoothing and interpreting the data with real market understanding.
5. **Forward-Looking Positioning:** At year-end, use forward-looking projections instead of stale data, then translate the analysis into a strategy for the firm, employee groups, and individuals.
6. **Customized Market Benchmarking Range**
   End result that is more accurate and applicable for current year

Illustration: CFO Example

For accurate benchmarking, raw comparator data requires expert adjustment:

Firm	Additional Responsibilities	Firm Size	All-In Compensation
A	Strategy, Relationship Mgmt	$100B	$8,000,000
B	Risk	$75B	$7,000,000
C	CAO	$65B	$6,500,000
D	None	$60B	$6,000,000
E	COO	$55B	$5,500,000
F	Business Head	$45B	$5,000,000
G	None	$50B	$4,500,000
H	Investor Relations	$40B	$4,000,000
I	Tech / Compliance	$35B	$3,500,000
J	None	$35B	$2,750,000
Raw Median			**$5,250,000**

Illustrative CFO comparator set - data before adjustment for scope and firm size.

What is the real median pay for a CFO with no additional responsibilities in a $50B firm?

- $5,250,000 mathematical median ignores scope and firm-size differences
- Role and scale can create a premium or discount

More Accurate Market Median ≈ $4,000,000

A simple median across this comparator set is $5.25M, but that doesn't account for the fact that several CFOs carry additional responsibilities, or that firm size ranges from $35B to $100B in AUM. Once responsibility scope and firm size are properly adjusted, a more accurate market median lands closer to $4.0M.

Benchmarking Carried Interest:

For firms investing in illiquid or evergreen strategies, benchmarking carried interest is critical. Carry structures vary widely by firm type, strategy, and ownership, and require a nuanced understanding of both the market and individual firm. Often points / percentages of carried interest allocations can be misunderstood as firms define pools differently. Additionally, understanding of ownership structures is often required.

Benchmarking carried interest requires dedicated private markets expertise to ensure the market allocations are not misstated.

Why Johnson Associates

True partner in the benchmarking process

- Extensive proprietary database
- 30+ years of experience
- Financial services specialization
- Customized annual compensation and carried interest benchmarking (reflecting firm / actual role)