NESVOLD
CAPITAL PARTNERS

EXECUTIVE BRIEFING

Compensation Models That Work

— and Three Principles Every RIA Should Apply

A practical framework for RIA principals building incentive plans that attract, motivate, and retain talent — without relying on compensation alone.

KEY TAKEAWAYS

- **Pay alone doesn't retain talent.** High compensation attracts performers in the short term, but firms that compete purely on salary create a revolving door of star performers that's difficult to build upon.
- **Strategy should precede incentive design.** An organization should define how it competes before building an incentive plan meant to execute that strategy — not the other way around.
- **Measurement criteria must be transparent, narrow, and controllable.** Employees need a clear, visible link between what they do and what they're paid.
- **Broad and narrow metrics each carry risk.** Broad measures dilute individual accountability; narrow measures can invite gaming — durable plans balance the two.
- **Career advancement rivals compensation as a motivator.** A transparent, objective promotion system can be just as powerful as current-year pay, especially at growth-stage firms.
- **Ownership and employment are different roles.** Equity should be purchased under buyer-friendly terms, not given away, and dividend income should never be confused with a paycheck.

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ABOUT NESVOLD CAPITAL PARTNERS

Nesvold Capital Partners (NCP) is a preeminent merchant bank specializing in wealth management and its broader ecosystem. As one of the sector's most exclusive M&A advisory boutiques, the firm avoids overlapping engagements with competing firms and focuses its sell-side processes on a select group of pre-vetted, highly qualified buyers. NCP delivers CEO-level advisory services to firms experiencing exponential growth or navigating transformative events — including mergers, acquisitions, recapitalizations, organic growth strategies, and partner liquidity or succession planning — and also makes supportive, non-control investments in innovative financial services firms led by exceptional management teams. Over the course of their careers, NCP's principals have advised, or invested in, firms managing over **$1 trillion** of client assets.

OUR TEAM



H. Peter Nesvold

JD, CFA, CPA

MANAGING PARTNER

Peter is a seasoned finance executive with a rare blend of legal, financial, and strategic expertise, holding credentials as a lawyer, CPA, and CFA charterholder. With over 25 years of experience on Wall Street, he has built a distinguished career in asset and wealth management, earning recognition as one of the top five most impactful M&A bankers in the industry. Peter advises CEOs, fiduciary boards, and senior leaders on complex M&A transactions, succession planning, compensation and equity strategies, brand building, and recruitment.

Previously, Peter was a partner and Chief Strategy Officer at Silver Lane Advisors, where he played a pivotal role in scaling the firm from startup to a top-ranked M&A advisor in wealth management, culminating in its sale to a Fortune 500 company. Prior to Silver Lane, he was a Senior Managing Director at Bear Stearns and a "five-star" portfolio manager at Lazard Asset Management.

Beyond his professional achievements, Peter is an Adjunct Professor at the Gabelli School of Business at Fordham University, an accomplished author of four books on M&A with McGraw-Hill, and an active member of multiple fiduciary and advisory boards. He holds degrees from the University of Pennsylvania and Fordham Law, and previously was a dedicated long-distance runner, having completed 19 full marathons.



Ruotao Wang

JD, CFA

DIRECTOR

Ruotao Wang is a Director at Nesvold Capital Partners, where he advises on mergers, acquisitions, and capital raises and serves as a key member of the firm's principal investment team. Prior to NCP, he was a Vice President in the Financial Services Investment Banking Group at Raymond James, where his main area of focus is asset and wealth management.

Ruotao holds the Chartered Financial Analyst® designation and has a bachelor's degree with highest distinction from the University of Michigan, and a juris doctor from Harvard Law School.

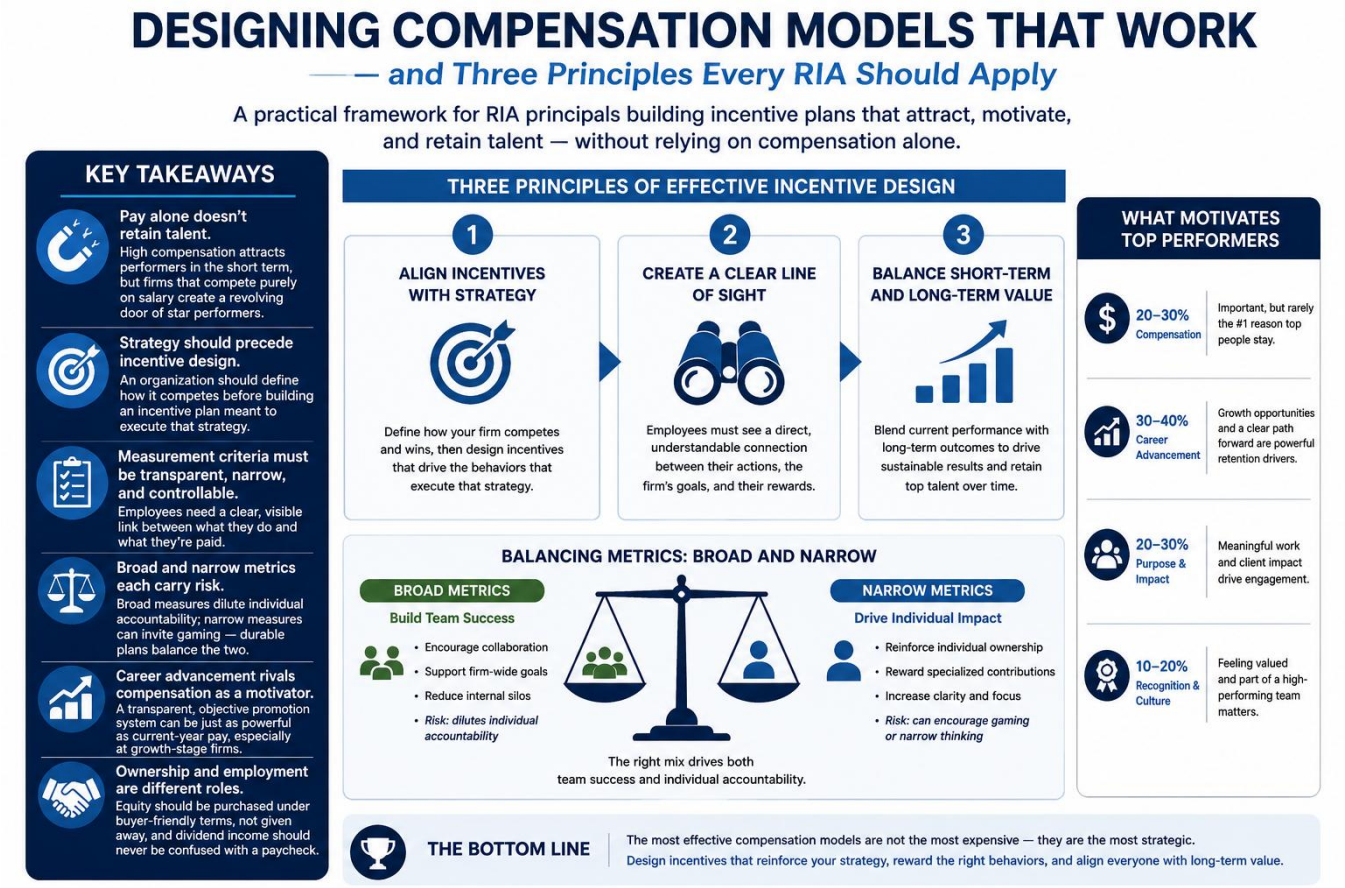
DESIGNING COMPENSATION MODELS THAT WORK

AND THREE PRINCIPLES EVERY RIA SHOULD APPLY

EXECUTIVE SUMMARY

Ask the principals of most wealth management firms what differentiates their organization, and a high share will say "our people." It's true — people are the most important asset in an intangible industry like wealth management. Yet the industry regularly struggles to design compensation models that actually attract, motivate, and retain that talent.

Compensation is a means to incentivize employee behaviors that enhance firm value — not merely a price paid to keep people from leaving.



THE LIMITS OF PAYING PEOPLE MORE

Wealth management has never been more competitive, with new entrants, technology convergence, and globalization all driving intense pressure for client market share. Every firm evaluates its value proposition to clients constantly. Far fewer firms apply the same discipline to their career proposition for in-house talent — yet employees now have just as many options when choosing a workplace as clients have when choosing an advisor. The labor market is already tight, and based on the aging demographics of financial advisors, the talent shortage will only worsen over the coming decade.

The instinctive response is to simply pay more. High compensation may attract top performers in the short term, but on its own it is not a winning strategy for retaining that talent over the long run. If a big paycheck is the only thing that entices a high performer to join a firm, it is only a matter of time before a larger contract lures that person away, creating a revolving door of star performers that's difficult to build upon.

Compensation is best understood not as a price for loyalty, but as a lever to incentivize the specific behaviors that enhance firm value — the same way firms advise clients that money itself is simply a tool for enabling a desired lifestyle. Every firm is unique and requires some level of customized incentives, but getting the lever right generally requires attention to three things: vision, measurement, and advancement.

#1 HAVE A CLEAR VISION FOR THE BEHAVIORS YOU WANT TO ENCOURAGE

As Charlie Munger once said, "Show me the incentive and I will show you the outcome." Incentives must reflect the behaviors a firm wants to encourage, which means a compensation plan should follow — not precede — the firm's business strategy. An organization should first decide how it intends to compete in specific markets, and only then design the incentive plan meant to execute that strategy.

Firms without an existing strategic plan don't need to start from a blank page. Several major RIA custodians publish annual benchmarking studies covering AUM growth, blended fees, headcount, and margins relative to firms of comparable size. Using a benchmarking study as a guide, project where the firm should be in five years, then break that goal into annual milestones. A five-year target can feel daunting until it's translated into a sequence of achievable annual steps.

From there, look at each annual performance goal and ask what behaviors are required of staff to achieve it. How are asset gatherers rewarded for new client origination? Does client retention carry appropriate weight in the current model? What happens if an advisor misses an annual budget? The answers define the outcomes worth incentivizing — and turn a five-year ambition into something the whole organization can act on today.

#2 DEVELOP NARROW AND CONTROLLABLE MEASUREMENT CRITERIA

Once a firm knows which behaviors it wants to encourage, it needs measurement criteria that are transparent, narrow, and controllable. As Jack Welch put it, "What you measure is what you get — what you reward is what you get." The task is not simple: it requires translating macro-level goals — growing AUM, defending fees, controlling costs, improving client retention — into micro-level criteria for individual employees.

There's an inherent tension here. Broad measures, such as firmwide revenue or margin targets, may matter most to the organization but sit largely outside any one employee's control, which undermines the incentive's motivational power — the plan fails at one of its central jobs, which is to reward the behavior of a specific person. Narrow, individual measures avoid that problem but introduce a different one: they can create perverse incentives, encouraging employees to game the system or optimize for their own numbers rather than

outcomes that benefit the broader organization. Compensation based purely on individual measures gives little incentive to collaborate; by the same token, compensation based purely on team results can create free riders. The best plans find a workable balance between the two extremes.

Consider an RIA whose compensation plan is tied entirely to revenue, with no attention to blended fees or client-support costs. An asset gatherer in that system is incentivized to originate revenue without regard for profitability, offering fee concessions that touch off a chain reaction: weaker margins, constrained resources, mediocre service, disillusioned clients, and, ultimately, more discounting. A better design links incentives to a sliding scale that accounts for both revenue and fee rates.

#3 CULTIVATE A CULTURE OF GROWTH AND ADVANCEMENT

Money is rarely the only reason people choose or stay with a firm — though it's probably in the top three. Job satisfaction, culture, and the opportunity for career advancement typically matter just as much. Early in my career, I had offers from two investment banks: a white-shoe firm that already covered 95% of the S&P 500 and often hired senior analysts from outside, and a scrappier firm that covered just 55% of the S&P but had a demonstrated record of promoting from within. I chose the scrappier firm for the long-term opportunity, even though the first-year paycheck was smaller. I advanced from Associate to Senior Managing Director in under six years. Smaller RIAs are similarly well positioned to build a culture of promoting from within.

A well-designed promotion system can be just as powerful as compensation for incentivizing desired behavior. Compensation at a given job level usually doesn't vary dramatically, at least at lower levels; a step-change in pay is typically preceded by career advancement of some kind. A promotion system that employees view as transparent and objective can be just as powerful a motivator as current-year compensation — and much of the RIA industry still lacks that transparency, a dynamic that doesn't bode well for retaining Millennials and other next-gen advisors.

That said, career advancement motivates most powerfully at growth firms, where expansion creates a steady supply of open seats above current employees. As growth slows and the hierarchy fills in, the motivational power of even a well-designed promotion system fades, and current-year compensation and non-monetary rewards become the higher priority.

STRUCTURING THE MIX: PAY, EQUITY, AND THE K.I.S.S. RULE

With vision and measurement established, plan design turns to three practical questions: the level of compensation, the mix of compensation, and the strength of the link between pay and performance.

Level should satisfy two forms of fairness — external fairness, meaning pay is competitive with the broader market, and internal fairness, meaning employees believe their pay reflects their contribution relative to their peers'. Mix typically combines base pay with variable pay, calculated in two stages: individual targets are set first (an average performer might earn 10% of base as a bonus, a high performer 40%), and the total bonus pool is then funded based on firmwide financial performance — in a strong year, that high performer might earn 40% x 120% = 48% of base; in a weak year, less. The individual target should rest on factors within the employee's control, such as new client flows and retention, while market performance influences the funded pool rather than individual targets.

Benefits and equity round out the mix. An estimated 40% of U.S. companies offer equity as part of pay at some level of the organization, and proponents argue it promotes a shared focus on long-term value creation — a

useful counterweight to cash bonuses that are often driven by year-to-year results. RIAs have several vehicles to choose from, ranging from employee stock options and restricted stock or restricted stock units, to stock appreciation rights and phantom stock, which replicates the economics of ownership without an actual transfer of equity and can be easier for closely-held firms to implement. Profit-sharing plans offer a related benefit without any change in ownership at all, and tend to be more common among lower ranks and at private companies where the underlying equity is illiquid.

Whichever vehicle a firm chooses, equity compensation deserves particular care. When equity is given away for free, employees tend not to value it — and always want more. A better practice is an equity purchase plan with buyer-friendly terms: a down payment and fixed principal payments over time, with distributions on the equity used to offset debt service. This also bifurcates two roles firms too often blur. Dividends compensate an employee for the shares they bought or received in the company; compensation pays them for the job they do. Those are different roles, and a plan that treats them the same creates confusion and resentment.

Finally, keep it simple. Deferred compensation can help offset the natural bias of annual performance metrics toward current-year results rather than long-term firm health, and "on-the-spot" bonuses — often just a gift card — can reinforce good behavior the moment it happens. But an overly complex plan, however well-intentioned, is one employees can't see through clearly enough to be motivated by it.

CONCLUSION

People are an RIA's greatest asset, and also among the most complex to manage. Higher compensation is not always the answer for recruiting, motivating, and retaining talent. Sustainable growth instead depends on employees engaging with a firm's vision, strategy, and priorities — which means the compensation plan must align with that long-term strategy, rest on performance criteria employees can see and control, and pair pay with a genuine, well-understood path for career advancement.

Compensation is a form of motivation. It motivates employees to create value for the organization by following the firm's vision, strategy, and priorities — not by simply outbidding the market for talent.

This briefing is provided for informational purposes only and does not constitute legal, tax, or compensation advice. It should not be relied upon as the basis for designing a specific plan. Please contact Nesvold Capital Partners directly to discuss compensation design for your firm.