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Q3: 2023-10-17 Earnings Summary

EPS of $5.47 misses by $0.06 | Revenue of $11.82B (-1.32% Y/Y) beats by $685.36M

The Goldman Sachs Group, Inc. (NYSE:GS) Q3 2023 Earnings Conference Call October 17, 2023 9:30 AM ET

Company Participants

David Solomon - Chairman and Chief Executive Officer
Denis Coleman - Chief Financial Officer

Conference Call Participants

Glenn Schorr - Evercore ISI
Ebrahim Poonawala - Bank of America
Christian Bolu - Autonomous Research
Steven Chubak - Wolfe Research
Brennan Hawken - UBS
Mike Mayo - Wells Fargo
Ryan Kenny - Morgan Stanley
Devin Ryan - JMP Securities
Daniel Fannon - Jefferies
Gerard Cassidy - RBC
Saul Martinez - HSBC

Operator

Good morning. My name is Taryn and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Third Quarter 2023 Earnings Conference Call.

On behalf of Goldman Sachs, I will begin the call with the following disclaimer. The earnings presentation can be found on the Investor Relations page of our website and contains information on forward-looking statements and non-GAAP measures. This audio cast is copyrighted material of the Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent. This call is being recorded today, October 17th, 2023.

I will now turn the call over to Chairman and Chief Executive Officer, David Solomon; and Chief Financial Officer, Denis Coleman. Thank you. Mr. Solomon, you may begin your conference.

David Solomon

Thank you very much, and good morning, everybody. Thank you all for joining us. Before I start my prepared remarks, I'd just like to take a moment to address the horrific events in the Middle East.

We condemn the terrorist attacks against Israel on the strongest possible terms and are heartbroken by the loss of so many innocent lives. This is clearly an extremely difficult and uncertain time for the region, and it's very concerning for many of us around the world. We obviously will continue to watch closely as this crisis unfolds.

Earlier this month, I marked the end of my fifth year as the CEO of Goldman Sachs. I've never felt more optimistic about the firm, and our strategy has never been more clear. We operate two core businesses, our market-leading Global Banking & Markets franchise, and our growing Asset & Wealth Management platform, both of which are being positioned to deliver mid-teen returns through the cycle.

As I reflect on the past five years, much of what has always made Goldman Sachs extraordinary remains the same, long track record of being a trusted adviser to the world's leading businesses, institutions and individuals. A global broad and deep platform with capabilities that span across products, geographies and solutions, an aspirational brand, exceptional people and a culture of collaboration and excellence.

Additionally, over this time, we have evolved the organization by institutionalizing a One Goldman Sachs operating ethos. This approach, coupled with our best-in-class talent, advice and execution capabilities has strengthened and solidified our leadership position across our businesses. As we sit here today, our client franchise is as strong as ever, enabling us to remain at the center of the most complex and important transactions for our clients.

For example, the IPO market has started to reopen. Since Labor Day, there have been four marquee IPOs priced in the United States, Arm Holdings, Instacart, Klaviyo and Birkenstock. Goldman Sachs was lead left on three of those four and the joint lead book runner on the fourth.

No other bank can make that claim. Being entrusted to help companies navigate the critical transition of coming to market requires long-standing client relationships, deep market expertise and experience.

Given the execution of these transactions, I'm encouraged by the prospects of a wider reopening of capital markets. If conditions remain conducive, I expect the continued recovery for both capital markets and strategic activity. As a leader in M&A advisory and equity underwriting, a resurgence in activity would be a tail [indiscernible] of Goldman Sachs.

In Asset & Wealth Management, our strategy is working as evidenced by the successes we've seen across our franchise. While some active asset managers have faced quarterly outflows over the last few years, we posted our 23rd consecutive quarter of long-term fee-based inflows.

We generated record management and other fees of $2.4 billion and are well on our way of achieving our $10 billion annual target to 2024. We are also ahead of pace on our $2 billion target for alternative management fees. While market-leading client franchise allows us to execute from a position of strength, we know we still have work ahead of us.

Earlier this year at Investor Day, we laid out a clear set of goals to narrow our strategic focus, and we have made significant progress on these priorities. Most recently, we announced the sale of GreenSky. We also announced the sale of Personal Financial Management this summer.

We sold substantially all of our markets loan portfolio. We have reduced our historical principal investments by $9 billion this year. We are confident that the work we're doing now provides us a stronger platform for 2024 and beyond.

As we assess the operating backdrop, the US economy has proven to be more resilient than expected, though there are reasons to remain vigilant. Treasury rates have risen sharply over the past few months with 10-year yields up 75 basis points in the third quarter.

On top of that, recent inflation and employment data has come in above estimates, driving market expectations of higher for longer interest rates. And there still are a number of sectors in the economy that have yet to absorb the impact of higher rates, especially in light of the further tightening in financial conditions we've seen over the last quarter.

At the same time, there has been an escalation of geopolitical stresses around the globe, the [indiscernible] war in Ukraine, tensions with China and now the conflict in the Middle East. Overall levels of risk are more elevated than we've seen in quite some time. While we don't know where this will all lead, it could impact economic growth and stability in the U.S. and around the world, and we remain cautiously positioned.

Before I turn it over to Denis, I'd like to spend a moment on Basel III Endgame proposal and reiterate my views on it. We, of course, support sensible regulation and the desire to ensure we have a safe and sound financial system. There are some who have recently said we need to address the lessons from the 2008 financial crisis, which is driving the needs of much higher regulations.

But frankly speaking, the rules, as proposed, go way too far and do not account for the vast array of improvements made by the largest banks as a result of Dodd-Frank and other reforms. Not only have banks doubled capital over the last 15 years, have improved the quality of capital, increased liquidity, simplified businesses that have been subjected to ongoing annual stress tests.

Requiring too much capital will have negative consequences. I believe if these rules are implemented, three things will happen. First, the cost of credit will go up for businesses of all sizes from large corporations to small businesses.

Second, more activity will move to the unregulated shadow banking sector. Policies that incentivize a transfer of risk outside the regulated banking system could, in fact, increase systemic risk. And third, US competitiveness will go down.

Our capital markets are the deepest and the most liquid in the world. They're the engine of our economy as access to capital allows for innovation and growth across the country. Our competitive standing as the leading global economy would be negatively impacted by this proposal.

The net result of these proposed rules would be slower economic growth in the US, material improvement in the -- soundness of the banking system. We, alongside clients and others in the industry, have been engaging heavily with our regulators and government stakeholders, and given this engagement, we expect that there will be ongoing debate and ultimately, changes to the proposed rules.

Though regulatory uncertainty and geopolitical risks remain top of mind, I feel very confident about the state of our client franchise and the long-term opportunities for Goldman Sachs.

We are focused on the execution of our strategy to further strengthen our leading Global Banking & Markets franchise and grow our Asset & Wealth Management business. I feel good about the relative performance in our core business, and we remain firmly committed to delivering for clients and shareholders.

I will now turn it over to Denis to cover financial results for the quarter.

Denis Coleman

Thank you, David. Good morning. Let's start with our results on page one of the presentation. In the third quarter, we generated net revenues of $11.8 billion and net earnings of $2.1 billion, resulting in a [indiscernible] and a return on equity of 7.1%.

As David highlighted, earlier this year, we made the strategic decision to narrow our focus, and we made strong progress across a number of activities. We provide details on the financial impact related to these decisions in the selected items table. In aggregate, these items reduced net earnings by $828 million, EPS by $2.41 and our ROE by 3.1 percentage points.

These items include results related to our historical principal investments within Asset & Wealth Management, including the net impact of marks, sell-downs and CIE impairments as well as results relating to GreenSky, which includes the impact of our announced sale and ongoing operating results. Additionally, we highlight modest ongoing losses in connection with our residual markets portfolio and operating the PFM business.

Turning to performance by segment, starting on page four. Global Banking & Markets produced revenues of $8 billion in the third quarter. Advisory revenues of $831 million were down versus a strong prior year period amid lower completions.

Equity underwriting revenues rose year-over-year to $308 million, though industry volumes remained well below medium and longer-term averages. Debt underwriting revenues of $415 million also rose versus the third quarter of 2022. For the year-to-date, we ranked Number One in the league tables across announced and completed M&A as well as equity underwriting and ranked number two in high-yield debt.

Our backlog fell quarter-on-quarter as we successfully brought transactions to market. Though market conditions are dynamic, client engagement continues to be elevated, and our best-in-class franchise remains well positioned to support the needs of our clients as they access the capital markets.

FICC net revenues were $3.4 billion in the quarter, down from a strong performance last year, particularly in currency and commodities and up relative to the second quarter. We produced record FICC financing revenues of $730 million grow sequentially on better results within mortgages and structured products. Additionally, we were pleased to win the bids for two pools of Signature Bank's capital call facilities, totaling just over $15 billion in commitments that were held for auction by the FDIC in September.

As we spoke about at our Investor Day, alternative asset managers are an attractive client set for us, and the purchase of this portfolio allows us to increase our connectivity with this client base, who we can serve even more holistically with our One Goldman Sachs approach. These activities also enable us to grow durable revenues at attractive risk-adjusted returns.

Equities net revenues were $3 billion in the quarter. Equities intermediation revenues of $1.7 billion rose 7% year-over-year on better performance in derivatives, while equities financing revenues of $1.2 billion were lower versus a record in quarter.

Total financing revenues across FICC and Equities were nearly $6 billion for the year-to-date, representing a record performance for these more durable activities. Our financing results, combined with the substantial share gains we've made since our first Investor Day are the direct result of the successful execution of our stated strategic priorities for this business. We are raising the floor in Global Banking & Markets as reflected by our year-to-date ROE of 13.4% despite muted activity levels across Investment Banking.

Now moving to Asset & Wealth Management on page five. Revenues of $3.2 billion were lower year-over-year, primarily driven by weaker results in equity investments. Management and other fees increased 7% year-over-year to a record $2.4 billion, largely driven by higher average assets under supervision.

Private banking and lending revenues were $687 million, up slightly year-on-year, as higher deposit balances and spreads were offset by our sale of substantially all of the market loan portfolio. We remain very focused on driving growth in the more durable revenue streams of management and other fees as well as private banking and lending, both of which generated record revenues for the year-to-date period.

Equity investments generated net losses of $212 million, driven by markdowns on investments in commercial real estate. In aggregate, the losses from our historical principal investments as well as the results for Marcus loans negatively impacted our 6% pre-tax margin for the segment by 18 percentage points for the year-to-date.

Now moving to page six. Total assets under supervision ended the quarter at $2.7 trillion. We saw $11 billion of liquidity inflows and $7 billion of long-term net inflows, representing our 23rd consecutive quarter of long-term fee-based inflows.

Turning to page seven on alternatives. Alternative AUS totaled $267 billion at the end of the third quarter, driving $542 million of management and other fees for the quarter. Gross third-party fundraising was $15 billion for the quarter and $40 billion for the year-to-date.

We were pleased to announce the close of Goldman Sachs Vintage Fund IX in the third quarter, our largest private equity secondaries fund and one of the largest in history at approximately $14 billion. Total third-party fundraising since our 2020 Investor Day is now $219 billion, putting us well on pace to hit our $225 billion target ahead of schedule.

On-balance sheet alternative investments totaled approximately $49 billion, of which roughly $21 billion is related to our historical principal investment portfolio. In the third quarter, we reduced this portfolio by over $3 billion, bringing year-to-date reductions to $9 billion. We are on track to achieve our 2024 year-end target of a historical principal investment portfolio below $15 billion.

Next, Platform Solutions, page eight. Revenues were $578 million, including a $123 million revenue reduction related to the GreenSky loan book, which was more than offset by a $637 million associated reserve release as we moved the portfolio to held for sale.

On page nine firm-wide net interest income was $1.5 billion in the third quarter, down sequentially as increased funding cost supported trading activities. Our total loan portfolio at quarter end was $178 billion, flat with the prior quarter. Our provision for credit losses was $7 million, which reflected net charge-offs in our credit card lending portfolio, offset by the reserve release I mentioned related to GreenSky.

Additionally, within our wholesale portfolio, impairments were partially offset by a reserve reduction that was driven by increased stability in the macroeconomic environment versus the prior quarter.

On page 10, we provide additional detail on our CRE exposure similar to last quarter. CRE loans continue to represent a relatively small percentage of our overall lending book at 14%. CRE investments are diversified across geographies and positions, with no single position representing more than 1% of the total on-balance sheet alternative investments. Across both equity investments and CIEs, we have marked or impaired office-related exposures by approximately 50% this year.

Now turning to expenses on page 11. Total quarterly operating expenses were $9.1 billion. Our year-to-date compensation ratio, net of provisions, is 34.5%, inclusive of approximately $275 million of year-to-date severance costs. At Investor Day in February, we articulated a goal of $600 million in run rate payroll efficiencies to be achieved in 2023 and 2024 and we are currently tracking to surpass that goal. These efficiencies allow us to reinvest in our highest performing people, particularly as the market for top talent remains fiercely competitive.

Quarterly non-compensation expense were $0.9 billion. The year-over-year increase in noncomp expenses was driven by the write-down of $506 million in the intangibles related to GreenSky as well as CIE impairments of $358 million.

While onetime expenses have been elevated for the year-to-date, we continue to focus on bringing down noncomp expenses and are making progress on our $400 million run rate efficiency goal. Our effective tax rate for the first nine months of 2023 was 23.3%, high versus the first half due to the write-off of deferred tax assets related to GreenSky and the geographic mix of our earnings. For the full year, we expect a tax rate of under 23%.

Now onto slide 12. Our common equity Tier 1 ratio was 14.8% at the end of the third quarter under the standardized approach, 180 basis points above our current capital requirement of 13%. In the quarter, we returned $2.4 billion to shareholders, including common stock repurchase of $1.5 billion and common stock dividends of $937 million.

Given the uncertainty around the capital rules at this time, we expect to moderate fourth quarter share repurchases versus the third quarter. We remain committed to paying our shareholders a sustainable growing dividend and maintaining a competitive yield.

In conclusion, our third quarter results reflect the ongoing narrowing of our strategic focus and the execution of our priorities, which will help drive our businesses to produce mid-teens returns through the cycle.

We are confident in our ability to deliver for shareholders while continuing to support our clients and remain optimistic about the future opportunity set for Goldman Sachs.

With that, we'll now open up the line for questions.

Question-and-Answer Session

Operator

Ladies and gentlemen, we will now take a moment to compile the Q&A roster. [Operator Instructions] We'll take our first question from Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Hi. Thanks so much. I guess just big picture, if we add back all the significant items in the quarter, we're obviously still well short of the mid-teens targets. I know this is super slow times, like decade lows in investment banking, and you're in the process of hopefully reducing a lot of on-balance sheet stuff. So I wonder if you could help us bridge the gap from here to there because in the back of our mind, we also have the potentially up to 25% increase in the denominator. So I wonder if you could bridge the gap of like how much is -- comes, do you think, from improvement in capital markets activity? How much is yet to be freed up capital from the denominator? I know it's tough but I want to say high level [indiscernible] pieces and thanks.

David Solomon

Sure, Glenn, and appreciate the question. And so we'll keep it high level and let's separate into what we've got and then we can have a separate discussion about Basel III. But first, we are simplifying the firm and kind of managing the firm to drive us toward the overwhelming majority of the firm to be in two core businesses, our Global Banking & Markets franchise, which is performing very well in an environment that's not a great environment for that business. Investment Banking activities are well below 10-year norms. I don't think that will stay that way. But if you look at the performance of the business through nine months, that business, which is kind of 7% of the firm, that is two-thirds to 70% of the firm, that business is operating with a 13.4% ROE and an environment that's not the best environment for that overall business. I can't tell you when the environment will get better, but I do believe that the capital markets and banking environment will improve in the coming years. History tells us that it doesn't stay short -- it doesn't stay closed for multiple years at a time. There is an adjustment. We're making the adjustment. Yes, the world's uncertain. As we mentioned, that could be a headwind. But I do think it will improve. And that business performs well. And we firmly believe that, that business is a mid-teens through the cycle business, the way we've materially grown our wallet shares, the way we've grown our financing footprint, which adds more balance to the business and with our market-leading franchises across that business. Second, we have the Asset & Wealth Management business, which we believe is mid-teens or higher returns as we reduce the historical principal and make it a lower capital business. We're on that journey. I think you see us making progress. We've talked about how we've reduced the historical principal businesses -- the historical principal investments by $9 billion this year. We set a target for $15 billion by next year, which we'll meet and then close to zero two years later. And so that business, we have a high degree of confidence we'll operate at mid-teens or higher as we reposition it. As we've also stated, we're reducing the drag in our platforms. We're narrowing the platforms and reducing the drag. And we're relatively confident that over the next 12 to 24 months, we'll make materially more progress in that. So you add that up with what we have and I think you can get very comfortable with the mid-teens target. Now, the Basel rules. The Basel rules, if they were implemented as they're position now would be a headwind to that but also that doesn't account for how we optimize and how we pass through pricing. We've seen things before. I'm not to saying it won't be a headwind, but I don't want to speculate on what it would do to our targets until we actually understand how it's coming through and what we can do across our businesses to appropriately manage it. So we continue to be very optimistic about our view to deliver meaningfully higher returns to our shareholders. And when there's more clarity on Basel, we're committed to giving you a clear picture of that view. But I wouldn't jump to a conclusion on it at this point. I'm not saying you are. I wouldn't jump to a conclusion on it at this point.

Glenn Schorr

Okay. I appreciate that. One quickie follow-up on your prepared remarks. You mentioned a number of sectors that have yet to absorb the higher rates. I'm curious if you could give a little color either on which sectors or how meaningful that is. I'm thinking from more of the big picture economy standpoint, but that caught my ear. Thanks.

David Solomon

Yes. Glenn, as I listened to you play it back, what I'd say, US economy has been more resilient. The fiscal stimulus has helped mute the material tightening of monetary conditions that's occurred. I'm still of the belief that there's been a lag with this tightening and across a broad swath of the economy, we will see more sluggishness. Now that doesn't necessarily mean it has to be a recession, and certainly, there's a good debate on where this all lands. But we, again, in the past quarter materially tightened economic conditions. And I just think there's a lag in most sectors of the economy, not all, but most sectors of the economy. And I do think over the next two to four quarters, the impact of that tightening will be more evident and will create slowdowns in some areas. I am hearing as I interact with CEOs, particularly around consumer businesses, some softness, particularly in the last eight weeks in certain consumer behaviors. I don't want to over-amplify that because I think the economy and the consumer has been more resilient. But I think that gear from watching closely.

Glenn Schorr

Thanks so much.

Operator

We'll move to our next question from Ebrahim Poonawala with Bank of America.

Ebrahim Poonawala

Good morning. I guess maybe just one first follow-up, Denis. I just want to make sure I heard you correct. Did you say you marked your CRE exposure by 50% in CRE office? And on that, just give us a sense of visibility even beyond office CRE. Clearly, it's a very manageable issue for you, but it remains sort of a source of nuisance and earnings noise. How much more do we have to go before this is kind of pinned down?

Denis Coleman

Sure. So, yes, to clarify, for our CRE and CIE exposure in the office space, we've either marked or impaired that down by about approximately 50% this year. So that's -- I think that's quite significant. We started the year with about $15 billion of CRE alternative investments. That's been reduced now by about $5 billion. 3/4 of that was either through paydowns or dispositions, the balance through marks and impairments. So we're making very, very significant progress against those exposures. If you were to look at the same set of exposures in non-office, the adjustment there through marks, our impairment is about 15% year-to-date. So we feel we've reduced a lot of notional appropriately reflected the valuations in those positions. But as indicated by our targets, we intend to continue to move down those exposures.

Ebrahim Poonawala

Got it. And I guess just a separate question. I mean, I think the capital markets environment, it is what it is. When you look at the firm over the next year or two, if maybe, David, where do you see the best growth opportunities? One, maybe talk about the client franchise and cap markets financing. Is that getting better or worse? And then there's a lot of talk about private credit, direct lending. You've talked about credit being an opportunity. Just give us a sense of could that be a meaningful source of growth as we think about the next year or two?

David Solomon

Sure. So in our Global Banking & Markets franchise, we still believe that we have opportunities with our focus on our execution to continue to grow our wallet share. We expanded our focus from the top 100 accounts to the top 150 accounts, and we also are expanding the granularity that we look at our accounts from the position of one, two or three as opposed to just top three. And so we still do see some wallet share opportunities but we obviously have a very strong wallet share. So that's not most significant. We are growing our financing for our Global Banking & Markets franchise, and we expect to continue to grow that financing footprint, and we have a plan to continue to put more financial resources toward growing that financing footprint. And we do think that it has reasonable returns. And it also creates a virtuous cycle for our client franchise in terms of our overall wallet share because we're a significant financer with them. When you turn to Asset & Wealth Management, I think we've been very clear at our Investor Day, and Mark stated this, that we think we can grow the revenues in that business by high single-digits. That is driven by our continued growth in management fees over time and the continued growth in the wealth management sector, where we are experiencing good growth, and we still see good opportunities in Wealth Management to grow the franchise all over the world. And we've made continued progress on that journey. When you talk about private credit, we have, as you know, over $100 billion of private credit. We've launched private credit vehicles. We obviously have a very powerful ecosystem when you look at Global Banking & Markets. And what we do with financing, which we think can also be an Asset & Wealth Management opportunity for growth in private credit, but we would expect significant opportunity for the growth in private credit as a part of the overall growth of our Asset & Wealth Management franchise. So those are a handful of things I'd highlight at this point.

Ebrahim Poonawala

That's helpful. Thank you.

Operator

We'll move to our next question from Christian Bolu with Autonomous Research. Please go ahead.

Christian Bolu

Good morning. Just another one on Basel III Endgame. I appreciate that you think it's going to change and all that. But now that you've had a chance to digest the actual proposal as is, any more color on how you think it affects the competitiveness of your markets businesses? Are there any particular businesses that are more or less impacted? And then maybe give us some color on potential mitigation actions.

David Solomon

Sure, Christian. I appreciate it. I mean, I'm going to talk very high level because, again, this is all fluid. But obviously, if these rules went in place the way they're proposed, they would have an effect of the businesses. But it's different from business to business. There are certain activities that would meaningfully impact end users, whether they're corporates or individuals where it would be obvious that you'd pass on cost. A corporation that wants to hedge and comes to us and we sit opposite in an uncollateralized derivative. I can't imagine that their desire to hedge won't still continue even if the cost of that hedge is higher. Obviously, it's some balance, they would think about that differently. There are certain businesses where we might reduce our activity level because with the new Basel rules, the terms don't look attractive. But there are others, and one I'd point to that's most obvious, which by the way, a significant part of the impact to us would be is prime, okay? There aren't a lot of alternatives for big institutions in the prime business. There are very few in Europe, a little bit, and obviously, the Europeans, if this was implemented this way, would have an advantage. But at the end of the day, there are a handful of scale players. There are lots of scale institutions that need that service. Our belief is we'd be able to optimize and pass on pricing in a reasonable way. We'd have to look at the final rules. We'd have to adjust. So it will affect behavior. It will affect pricing. It will affect optimization. But I know everybody wants to jump to the clear answer, I think you need to see the rules, and then institutions and end users need to adapt to the new reality, whatever it is. And it's not binary that it only affects us or others in the industry that are obviously be a process of working through that, as we have in the past.

Christian Bolu

Got it. Thank you. That's helpful. Maybe a question on the platform businesses here. I just have a two-part question. I guess firstly, maybe just update us on how you're thinking about the partnership with Apple. Can the economics work for Goldman in the current states or does it make sense to further think about disposing of that partnership? And then the second question is more on the credit quality in your senior credit cards. Kind of what are you seeing in terms of credit quality in that portfolio? How does it compare to your expectations and the broader sort of credit card industry?

David Solomon

All right. I'll start on the first part, Denis will make some comments on credit and the portfolio. First, I think we hired a gentleman, Bill Johnson, who's got decades of experience to help us better run and better optimize the credit card portfolio, the credit card partnerships. As we've stated to you a number of times, and I'll repeat it here very clearly, we've worked to narrow our focus. You've seen us execute around Marcus loans and GreenSky. Our partnerships with Apple and GM are long-term contracts, and we don't have the unilateral right to exit those partnerships. So our focus at the moment is on managing them better, getting rid of the drag and bringing them to profitability. And we're making progress, both in the way we run them and against the cost base that we put against them. And Bill Johnson joining is helping with all that. We'll continue as we go forward to work constructively with our partners and examine what's best in the long run for Goldman Sachs. But our core focus is on reducing the drag over the course of the next 12 to 24 months and ensuring we operate them better. Denis, do you want to comment a little bit on the credit quality that we're seeing?

Denis Coleman

Sure. What I'd add is we obviously remain very focused on the overall credit quality of the portfolio. A couple of things to bear in mind. In Consumer, the net charge-off ratio for the quarter was 5.1%, down from 5.8% last quarter and the total dollar amount of charge-offs down as well. You'll also see that our coverage ratio now stands at 13.3%, which we think is an appropriate level, given our expectations for the portfolio. That adjustment is basically a function of GreenSky being removed from that ratio. And so now that applies to the cards portfolio, but we feel good about where that stands right now. On the overall performance of credit on the forward, we'll continue to be focused. We made a number of adjustments to our credit underwriting box, and we'll continue to monitor that as we move through the economic environment.

Christian Bolu

Great. Thank you.

Operator

We'll move to our next question from Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Hi. Good morning, David. Good morning, Denis. So David you had alluded to increased competition for talent driving some pressure on expenses. I was hoping you could just speak to the commitment to deliver on the 60% efficiency goal? And maybe more specifically, given changes in revenue mix, some recently announced business exits and the heightened competition you cited, how that's going to impact your ability to deliver on that 60%, if at all?

David Solomon

Yes. So we continue to be committed to the 60% efficiency ratio. But as you know, we're moving through, we're narrowing our focus. We're moving through some things that we're trying to create more transparency on, Steven, and highlight for you. I'm going to turn to Denis to make sure that we get the number right. But ex those one-off items, the efficiency ratio for the quarter would have been?

Denis Coleman

About 64.6%.

David Solomon

Okay. So putting it in perspective, I think it's important to highlight that we don't think the things that we're highlighting continue in perpetuity. We're trying to narrow the focus and when we look at our Global Banking & Markets business and our Asset & Wealth Management platform, we think we have the right target. Now back to your point, Steve, about competition. The competition for talent, especially the best talent, remains very, very strong. And so we think we've got a very, very good talent ecosystem. I feel good about the hiring we're doing. I'd just highlight that for our analyst jobs out of university, we had 260,000 applications for approximately 2,600 jobs. There are over 1 million applications for employment at Goldman Sachs last year. Very, very aspirational and desirous place to work, but the competition for talent remains high. And so we'll strike the right balance and making an investment in our talent. You heard Denis talk about some of our efficiencies and the fact that the efficiencies allow us to make a reinvestment in some of our best talent. We feel good about where we are, but we also believe that as we continue to execute on our strategy, which narrows our focus and keeps us focused on our two core businesses of Global Banking & Markets and Asset & Wealth Management, that the efficiency ratio target that we're hiring -- that we're highlighting over the next few years is a reasonable target.

Steven Chubak

That's great color. And just for my follow-up, a broader question on the sponsor outlook. Alts fundraising, it's continued at a healthy clip, but PE is facing numerous headwinds, whether it's the LP denominator effect, higher rates and just slower realization activity in general. I was hoping you could speak to the broader outlook for the sponsor business and the implications for both the sponsor booking activity as well as the alternative asset management business.

David Solomon

Sure. So that broadly defined sponsor community, Steven, which really is the broad alternatives world, private capital world, the first thing I'd just say is we believe strongly that there's still a very, very long-term secular growth trend that is intact and will continue. I think there's some very, very interesting macro dynamics. I believe there's over $70 trillion of assets held by baby boomers that sometime in the next 20 years either will be passed on to a younger generation for aggressive investment, will go to taxes or will go to charitable foundations, by the way, charitable foundations who also invest. So there's a very, very strong dynamic of good flows and a shift, especially given the size of the public markets into private asset classes. And so we believe that's firmly intact. There's no question that the capital raising environment is more muted than it's been. I would say it was extraordinarily robust in 2020 and 2021 and very, very robust in an environment where monetary policy was incredibly accommodated. But there's no question that all of this investing can be successful as new vintages and a new reset environment are opened up even if rates are higher and they operate higher. The one thing I know about the sponsor community is they generally make money by selling assets, and the sponsor community owns an enormous portfolio of businesses, and they also make money when they buy new assets. They obviously have to buy new assets at different valuations with different financing costs now. And what I'd say is for the last six quarters, the last 1.5 years, that community has been very quiet. In our dialogue, they are starting to see more interesting opportunities. And I would expect in the next 12 to 24 months, the level of activity in the sponsor community will increase again, both in terms of sales. It's one of the reasons why I'm optimistic on capital markets and our advisory activities look forward over the course of the next four to eight quarters but also in terms of new purchases. I'm not suggesting that it will go back to where it was in 2021. That would not be the norm, but if you look at kind of 10-year historical averages and the percentage of investment banking activity, the sponsor activity would make up, I would expect that you'll see it go back to those averages. And at the moment, we're well below those averages at the current point in time.

Steven Chubak

Very helpful, David. Thanks for taking my questions.

Operator

Our next question comes from Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Good morning, David and Denis. Thanks for taking my questions I'd love to start on expenses and comp, and David, you just spoke a little to this when answering Steven's question. But the comp ratio, we saw revenue growth broadly quarter-over-quarter and yet the comp ratio ticked up, which is rather unusual for Goldman. Denis, I know you layered in that there was nearly $300 million of severance year-to-date. Was some of that in the third quarter or was there any unusual items impacting the comp ratio? Or was this mostly just because of the competition for talent? Thanks.

Denis Coleman

So in terms of third quarter, it was very, very small. We previously disclosed $260 million of severance so there's a small amount of severance in the quarter. We just think it's important to continue to call that out and highlight it so you can track that over the course of the year. That obviously rolls into our overall ratio in terms of what we're thinking for the full year. And we made the adjustment to the comp ratio in the third quarter based on what our expectations are for year-end performance as well as what we expect to pay our people. And we're looking in top composition this being mindful that we continue to pay for performance, but also recognizing, in particular, across our core businesses, we have leading market shares in Global Banking & Markets, record year-to-date financing activity, record management fees year-to-date, record private banking and lending activities year-to-date. And these are the bedrocks of our business for the foreseeable future. And we think it's important that we continue to recognize and retain the talent associated with those businesses that are going to unlock our mid-teens returns in the future.

Brennan Hawken

Okay. Thanks for that, Denis. And then when you're thinking about -- thanks for all the color on those CRE and the exposures. When you're thinking about these historical principal investments that you're intending to continue to sell by the end of next year, what portion of those are CRE or CRE-related? Is it possible to give any color around the assets that you're looking to sell and how exposed they are to CRE or other sectors?

Denis Coleman

Sure. So I made a comment earlier. If you look at aggregate CRE-related on-balance sheet investments and you look across asset classes like loans, debt securities, equity securities, and remaining exposure of equity in our CIE portfolio, that, in aggregate, now stands at a little bit under $10 billion, $9.7 billion and down already $5 billion year-to-date. There are portions of some of those exposures that relate to our firm-wide activities, our CRA obligations and some co-invest exposures. If you look at the -- in aggregate, about 43% of the CRE on-balance sheet investments is HPI, and that's what we're looking to sell down over time.

Brennan Hawken

Great. Thanks for that color.

Operator

We'll move to our next question from Mike Mayo with Wells Fargo. Please go ahead.

Mike Mayo

Hi. The pivot's not new. It's been advertised. I guess what's new is the actual losses. So looking back, who is accountable and who pays the price for the losses with GreenSky, the Marcus loans and a consumer expansion strategy that was wider than you want it to be now? And then looking ahead, once you eliminate what you want to eliminate both on the consumer side and principal investments, how much would that alone improve ROE? Thanks.

David Solomon

Thanks, Mike. Appreciate the question. The leadership of the firm, which includes myself and the other senior leadership, are responsible for everything that happens here and everything that we do for our shareholders and for our people. So obviously, we're responsible and accountable for any decision that we make. I said publicly before that I'm happy that we pivoted. As you say, the pivot is not new. We've made the pivot. We said we were going to do certain things. With hindsight, you will do certain things differently. We obviously reflect. We learn from the things that we do. But I think it's important for companies to try things, for companies to learn and adapt. When you make a decision that you think is a wrong decision for shareholders and the firm, you adjust accordingly. So we're doing that and we're moving forward. The second part of the question was?

Mike Mayo

How much does ROE improve simply by discarding of your extra principal investments and the remaining consumer businesses you want to get rid of?

David Solomon

Well, I think we've given you a bunch of transparency, Mike, just looking at this. But if you look at what created a drag to ROE this quarter, 75% of the drag to ROE this quarter were the impairments and the rough [indiscernible] on the historical principal investments. And if you look over the last few quarters, the most significant impact on ROE performance has been the historical principal investments. Now also, there were benefits from those historical principal investments historically. But in this environment, obviously, you don't see that. We think it's a better business to release that capital and run a fund business, a lower capital fund business, and so we're driving that. I think earlier in the call, we talked about the through-the-cycle performance of the banking and markets business. You can see the banking and markets ROE right now and also the forward ROE of the Asset & Wealth Management business with less capital in it. The drag from the platforms is getting smaller. And over the next 12 to 24 months, it will get smaller, too, hopefully eradicated. And so that will give you a cleaner ROE that we continue to believe can be mid-teens through the cycle.

Mike Mayo

And then what is your ability and appetite for more buybacks? Basel III, of course. But to the extent that you're discarding of the principal investments, that theoretically should free up more capital for either buybacks or reinvestment elsewhere. Kind of what are your plans and what are your limitations?

David Solomon

Yes. So I think Denis highlighted this in the prepared remarks. We've built a pretty big cushion and buffer, given that we successfully reduced our SCD based on actions we're taking. We think that under the stress test, as we continue to reduce principal investments, we will have more benefit to SCD. Now obviously, Basel is out there and it's uncertain, so we're, at the moment, operating a little bit more conservatively around that, and we've highlighted that we probably will be a little bit more conservative on buybacks until we have more clarity. But we will continue to buy back stock. We will continue to pay our dividend. And as we have clarity under this strategy, there should be meaningfully more capital release, which could ultimately benefit to further buyback. But at the moment, we'd like -- we're going to be a little bit more cautious and have a little bit more clarity around the capital rules before we flow ahead.

Mike Mayo

All right thank you.

Operator

We'll move to our next question from Ryan Kenny with Morgan Stanley. The floor is yours.

Ryan Kenny

Hi. Good morning. Thanks for taking my question. So wanted to follow up on the earlier questions on markets, maybe asked another way. So trading revenues are clearly extremely strong. Industry wallet and both fixed income and equities is tracking well above pre-pandemic levels, and you've been taking share. But looking forward, is there any scenario related to Basel Endgame where we see industry wallet size shrink? And as you think about higher for longer rates, how do you expect that, that impacts the various trading businesses?

David Solomon

Look, I think the intermediation activity for large institutions and corporations and governments around the world continues. The growth of the government in the world continues. The market capital world continues to grow and expand. I can't and I won't speculate on exactly where the final Basel rules wind up and how everyone optimizes through all that, but I don't think anything is changing in intermediation. And the need to finance the positions and the activities of so many of our clients is growing. And so I continue to think for leading players that have scale and global footprint and are in a leading position in these markets businesses, I think they're very well positioned in these market businesses. Of course, there will be ups and downs in those businesses. But I think the businesses will continue to perform very, very well.

Ryan Kenny

Thank you.

Operator

Our next question comes from Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Thank you. Good morning, David and Denis. Want to come back to Wealth Management. I know that the sale of Personal Financial Management is a small business. But just if you can remind us how and where you want to compete in Wealth Management moving forward. And David, maybe give a little more color on some of those growth opportunities you alluded to that you're seeing there across the globe. Thank you.

David Solomon

Yes. So I appreciate that question, Devin. Our focus is on ultra-high net worth management where we have a leading franchise. I just highlight that ultra-high net worth management -- high net worth wealth management is still a very fragmented business. And while we have a leading franchise, leading franchise is kind of mid-single-digit share and we have less share than that in places like Europe around the world. We've seen really good growth in Europe. We see continued growth in the US. We have an ability as we put more resources on the ground and invest in more resources to cover clients to continue to grow that business. We've seen good growth over the last five years. I think we have neat run rate room to do that. One of the decisions we made, and again, this is on focus and kind of a lesson learned is by selling United Capital and selling PFM, which was a small business, as you highlight, it allows us to take the resources and the investment we might have geared towards growing that and add it to our investment in ultra-high net worth growth. And we think that's a better returning business and something we're very confident that we can continue to execute on.

Devin Ryan

Okay, terrific. And then just a quick follow-up. So the $15 billion capital call facilities with Signature Bank, it sounds like you think that could help gain share with alternative asset managers. And you framed out obviously why that's such an important customer base for Goldman Sachs. So if you can, maybe give us a little flavor for how that's going to help drive market share and how you think about where you sit with sponsorships, given how important they are as a customer for Wall Street, whether you have any sense of like where you are in the top three or where you can go from three to number one? Or just any flavor for where your market share opportunities exist there?

David Solomon

Sure. In traditional investment banking services, we have leading share with sponsors across M&A and leveraged finance. These capital facilities are key to the way they operate their business. And while we've been in the business of capital facilities, it is an area of growth for us, an area of lending growth for us. One of the things that was interesting about these portfolios is the portfolios bring a series of new clients to us where we haven't been a lender and we haven't been engaged in this activity, and it gives us an attachment to them. So this was an opportunity to expand an activity that we run meaningfully. Again, I made this comment when we were talking about the Global Banking & Markets business, financing your clients strengthens your overall position with them because the financing is important to them. And so as we continue to finance sponsors, I think it strengthens ready, very strong position with the sponsor community.

Devin Ryan

Understood. Thank you.

Operator

We'll move to our next question from Dan Fannon with Jefferies. Please go ahead.

Daniel Fannon

Thanks. Good morning. I had a question on Platform Solutions. So for the quarter, if we exclude the write-down, is this a reasonable run rate for expenses? And as you think about achieving your target of profitability in this business, is this going to come more from the expense side or revenue growth? And if you could also just give an outlook for Transaction Banking, just given revenues are down both sequentially and year-over-year.

Denis Coleman

Sure. Thank you for the question. I don't think it's the right run rate. I think there's a combination of things that we expect over the next 12 months in terms of growth in revenue, composition of the clients as well as ongoing efficiency with respect to expenses. So I think we should be outperforming any type of run rate analysis. I think on Transaction Banking, we've tried to explain the strategic focus for us for that business, which is to grow a higher-quality client business over the long term. We had grown quickly. We're now focused on growing with high-quality clients, high-quality deposits. As you note, the revenues and the deposit balances were down slightly sequentially, I think, reasonably in line with the industry, given some migration to other higher-yielding opportunity sets. But we did grow our client count. We remain committed to the business and we think that it works very well with our overall Investment Banking franchise and footprint, and we think it could be a good value unlock over the longer term for Goldman Sachs.

Daniel Fannon

Thanks. And as a follow-up, you mentioned in terms of alternatives and the fundraising at the private equity challenges. But maybe if you could talk broadly about fundraising and some of the bigger funds maybe that you're in the market with today. And then also, as you think about the maturity of the business broadly within alternatives, how are you thinking about the contribution of incentive fees going forward? And when should we start to see those become a more material component of the overall revenue profile?

Denis Coleman

So on the alternative space, our fundraising activity, $15 billion in the quarter, $40 billion year-to-date has been broad-based. We have a broad-based platform. We have mentioned the secondaries fund. David covered some of the private credit spaces. These are big areas of interest for our clients around the world. They're particularly relevant. We expect to continue to invest in those platforms as well as across the platform more broadly. Incentive fees come through as we get to the end of funds, we're in a position to start to distribute carry. So incentive fees will be lumpy. It will depend on the performance of different funds, but we expect that there will be more incentive fees next year and beyond. When we laid out at Investor Day the building blocks for our performance in the segment, we put on the page, not only the top line target information that David covered earlier, but also estimated incentive fees sort of on an annual basis. So I think that's a source of upside for us.

Operator

We'll move to our next question from Gerard Cassidy with RBC. Your line is now open.

Gerard Cassidy

Thank you. Good morning, David. Good morning, Denis. David, in the past, you -- and you talked about the IPOs, the four that you guys were very involved with this quarter. But in the past, you talked about green shoots, and part of it was the convincing of private equity owners or companies that were owned by private equity that if they wanted to go public, they're going to have to recognize that the valuations today are far below where they were in 2021 at the peak of the cycle. Are you finding those conversations easier today or are you finding more people are recognizing that's correct? And if they want to go public, they just had to accept it?

David Solomon

Yes. I mean, I appreciate the question, Gerard. I think absolutely, they're easier. And if you look at a handful of the companies that have gone public, you can look at their private market valuations two years ago versus the valuation now. But I don't think those discussions are difficult. I think those discussions have a real sense of realism in them. And I think there are a number of companies that recognize the new environment and are focused on what they have to do to enhance themselves strategically.

Denis Coleman

And Gerard, I'd just add, it's actually especially helpful to have numerous real data points in market, both space for equities and across the leveraged finance space. So the conversations that we're having with our clients now who are looking to access the markets. They're informed by our leading role in insights into most of the activity that's been accomplished in the last several weeks. And so I think that is an incremental source of our optimism that we have those data points and that insight to share with clients and advise them on how and when they can get to market and what types of terms and pricing.

Gerard Cassidy

Okay, very helpful. And then as a follow-up, it's not a big line item obviously for you folks. But can you share with us some of the color in the Transaction Banking area? That was obviously a new business line that you guys created. Just how is it going? I saw the revenues were down slightly, I think, sequentially. But what's going on in that line of business? And again, granted it's not a major line of business for you folks at this time.

Denis Coleman

Sure. No. Thanks, Gerard. Our Transaction Banking activity remains a strategic focus. The revenues and the deposit balances are down slightly on a quarter-over-quarter basis. Those things are linked. We have grown our client count, and we remain committed to making the investments to grow high-quality balances and clients in that business over the medium to long term. No change in strategy.

Gerard Cassidy

Thank you.

Operator

Our next question comes from Saul Martinez with HSBC. The floor is yours.

Saul Martinez

Hi. Thanks for taking my question. I wanted to drill down a little bit more on Platform Solutions. I think, Denis, you mentioned that this quarter isn't necessarily a great run rate for expenses or revenues. But even this quarter, if I adjust for the loan markdown and the impairment, it seems like you -- my math is correct, you are PPNR positive. Obviously, credit costs are high, the credit card book is seasoning and you're still growing that portfolio. But if you can just help us parse through some of the moving parts and help us understand the glide path to getting back to -- or getting to close to breakeven or breakeven over the next, say, 24 months?

Denis Coleman

Sure. Thanks, Saul. So just a couple of things on glide path to help with the question in the context. So rate of growth is important in a business like this that's been growing very, very quickly and obviously taking provisions in line with CECL. We expect the growth rate for that activity has been slowing and could slow further, and that has some positive impacts. And then as David mentioned, we made a strategic hire of a very seasoned industry professional. I mean, we're working very, very closely with him on the overall operations of our platform. We remain in discussions with our card partners and working carefully to improve the overall efficiency for the platforms for our clients and for Goldman Sachs. I think it's a combination of the way we're going to grow on the forward combined with we manage the expense and the operating efficiency.

Saul Martinez

Okay, that's helpful. And just maybe a quick follow-up there. I think you mentioned that NCOs, net charge-offs, were down this quarter. Is that -- and you do have a 13.3 reserve coverage. It does seem like your maybe closer to a scenario where provisioning to come down quite a bit, especially under CECL. But just maybe just give us a sense of how you're feeling about the credit outlook. And is my assessment right that your reserving could -- especially if you slow down, it could come down pretty materially over the next year to two years?

Denis Coleman

So you have a couple of facts that are right. We did have a charge-off ratio that was down sequentially quarter-over-quarter from 5.8 to 5.1 and lower charge-offs. We are not necessarily predicting that's the ongoing path for credit in the consumer portfolio. It's something we're still mindful of, given the environment, given the vintages in which we've originated those exposures. We do feel that the coverage ratio at 13.3 is appropriate, and we obviously set that based on our expected life of loan losses. So as we move forward, our expectation is we'll continue to see elevated charge-offs. And as you look at our reporting on that with GreenSky pulled out of the consumer line, you'll have a more pure look at the cards platform, and we do expect that will show elevated charge-offs.

Saul Martinez

Okay. Great. Thank you.

Operator

Our next question, we'll return to Mike Mayo with Wells Fargo. Please go ahead.

Mike Mayo

Hi. Just a clarification on my prior question. So if I have this right, you reduced your PE investments by $3 billion quarter-over-quarter, and that allowed a $2.5 billion reduction in capital allocated to the Asset Management and Wealth segment. I mean, is that completely correlated. So if you get rid of the $21 billion of remaining principal investments, would that free up, say, $16 billion? Is that ballpark right?

Denis Coleman

No. Mike, I think when we started talking about the reduction of our historical principal investments over time, we gave a number of about $9 billion of capital release for the entire portfolio. So I don't think -- I'd be happy to get on with you and sort of work through your numbers, but I don't think we have $16 billion incremental on the forward, significantly less than that.

Mike Mayo

So how much do you have left that once you discard the $21 billion that remains, how much capital should be freed up?

Denis Coleman

I mean, on a year-to-date basis, based on the activity that we've undertaken, that's a release of about $2 billion, to give you a sense. So we probably have remaining mid-single digits.

Mike Mayo

Okay. And as far as the comp ratio, should we consider these onetime charges as part of comp or would that be excluded when we think about our models?

Denis Coleman

So we obviously have to include it for the purpose of the comp ratio accrual. We do think of them as more onetime in nature. We, as you know, did a headcount reduction earlier in this year. That's not our current expectation to repeat that. If anything, we think that the work we've done to right-size the firm is something that puts us in a position to now make more selective investments in our headcount on the forward. So we don't expect that type of severance to repeat itself. And we are taking into account as we set the compensation ratio, that severance payments is obviously not available to pay those employees that remain with the firm. We're very focused on pertaining to continue to drive the franchise.

Operator

At this time, there are no further questions. Ladies and gentlemen, this concludes the Goldman Sachs Third Quarter 2023 Earnings Conference Call. Thank you for your participation. You may now disconnect.

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