Goldman Sachs Group, Inc. (GS) CEO David Solomon on Q4 2018 Results - Earnings Call Transcript

Jan. 16, 2019 2:27 PM ET | 2 Likes | 2 Likes
by: SA Transcripts

Q4: 01-16-19 Earnings Summary

SEC 10-K Slides

EPS of $4.83 beats by $0.05 | Revenue of $8.08B (3.14% Y/Y) beats by $598.25M

Earning Call Audio

Subscribers Only

00:00 -00:00

Goldman Sachs Group, Inc. (NYSE:GS) Q4 2018 Earnings Conference Call January 16, 2019 9:30 AM ET

Company Participants

Heather Miner - Head, IR

David Solomon - Chairman & CEO

Stephen Scherr - CFO & EVP

Conference Call Participants

Glenn Schorr - Evercore ISI

Michael Mayo - Wells Fargo Securities

Chinedu Bolu - Sanford C. Bernstein & Co.

Guy Moszkowski - Autonomous Research

Matthew O'Connor - Deutsche Bank

Michael Carrier - Bank of America Merrill Lynch

Betsy Graseck - Morgan Stanley

Brennan Hawken - UBS Investment Bank

Steven Chubak - Wolfe Research

James Mitchell - The Buckingham Research Group

Devin Ryan - JMP Securities

Gerard Cassidy - RBC Capital Markets

Operator

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Fourth Quarter 2018 Earnings Conference Call. This call is being recorded today, January 16, 2019. Thank you.

Ms. Miner, you may begin your conference.

Heather Miner

Good morning. This is Heather Miner, Head of Investor Relations at Goldman Sachs. Welcome to our fourth quarter earnings conference call. Today, we will use a new earnings presentation, which can be found on the Investor Relations page of our website at www.gs.com. No information on forward-looking statements and non-GAAP measures appear on the earnings release and presentation. [Technical Difficulty] reproduced or rebroadcast without our consent.

Today on the call, I am joined by our Chairman and Chief Executive Officer, David Solomon; and our Chief Financial Officer, Stephen Scherr. As noted on the agenda on Page 1 of the presentation, David will provide introductory remarks about our strategic priorities, perspectives on the macro environment and an update on 1MDB. Then Stephen will walk through our financial performance. They'll be happy to take your questions after that.

I'll now pass the call over to David. David?

David Solomon

Thanks, Heather, and thanks to everyone for joining us this morning. I'm very happy to be here with you, and I look forward to joining this call in a more regular basis. I'm going to start off this morning by reiterating that I'm fully committed to an active and ongoing dialogue with our shareholders and our broader stakeholders. I'm excited about our new call format and presentation, which is an initial step as we continue to enhance engagement and disclosure.

As shown on Page 2, it is important to underscore that our overarching priority is to execute our core mission: Serving our diverse client franchise, which includes corporations and governments, institutions and individuals; executing on our client-centric model will drive long-term sustainable value creation for our shareholders. We remain committed to delivering a full range of services to our clients, including advice, market liquidity, investment management and financing. As many of you know, John, Stephen and I are conducting a comprehensive front-to-back review across each of our businesses, including 3-year forward plans to identify opportunities to strengthen or expand our client footprint and to operate more efficiently. We are also pursuing new ways to deepen our existing relationships and expand our client footprint by developing new products and business platforms.

As our strategic business reviews are progressing, let me highlight some early findings, which are shown on the right side of Page 2. Starting with our market-making business in FICC and Equities, we've spent a significant amount of time, evaluating all aspects of our businesses, including our delivery model, with a focus on providing best-in-class client experience and execution. To achieve this, we will continue to invest in automation and platform enhancements. We are also actively engaged in pursuing opportunities to grow our addressable market by broadening client relationships and improving our mix of products, services, particularly the corporates.

Specifically as it relates to FICC, we have a leading institutional market-making franchise. Clients tell me we have differentiated people and capabilities, particularly in the intermediation of large complex risks. But let me be direct. We're fully cognizant of the reduction in the industry wallet over the past decade. And as Stephen mentioned at the Bank of America Merrill Conference, we will not be complacent waiting for the market to return. We are running the business with a clear perspective of its revenue potential.

Over recent years, we've made significant progress on improving capital utilization and reallocating capital away from FICC commensurate with its potential in order to grow strategically, important and higher returning businesses. We will continue to optimize capital in the business. We also see an opportunity to further reduce expenses. We're investing in automation as we expect many businesses within FICC to evolve similarly to equities. All these efforts will position our franchise to remain a provider of choice while improving returns for our shareholders.

Secondly, we have a world-class alternatives investing franchise, which has generated strong returns over 3 decades. We have one of the most unique sourcing platforms given our global footprint of broad network. Our franchise presents us with extraordinary opportunities to partner with clients to invest their capital alongside our own. Based on our track record, there is an opportunity to raise additional third-party funds across equity, credit and real estate, thereby augmenting fee income. Simultaneously, we can continue to monetize on-balance sheet investments and optimize capital consumption.

Next, on cash management. As we evaluated opportunities to improve services to our clients and expand our franchise, cash management presents an illogical area for us given the breadth of our corporate relationships and the size of that wallet. In addition, the pace of technological change in the payment space gives us confidence that it is appropriate time for us to address this opportunity. We are now 6 months into a 2-year build, and our firm will be first to use a cash management platform later in 2019. In addition to validating the product, doing our own operational payment flows will reduce costs and operational risk. Among all -- assuming all progresses as planned, we expect to launch the product to clients in 2020.

Lastly, as we bring markets and the business of Investment Management closer, we will continue to evolve markets from a single product to a multiproduct platform. We now serve 3 million customers through our lending and savings products in Clarity Money. We plan to further enhance the platform to include multitiered mass affluent digital wealth offering, which is currently in development. We are confident this collaboration will be a catalyst for the successful execution of this strategy over time.

Across these and other investments for growth, combined with a significant focus on operating efficiency, we are beginning to deliver on our commitment to enhance the durability of our revenues and our earnings. We continue to review our strategic priorities with our board and plan to communicate a more comprehensive update to the market in the coming months. Additionally, later this year, we plan to share specific metrics and financial targets we will use to hold ourselves accountable. Ultimately, we will operate the firm to drive leading shareholder returns over the cycle.

Before we discuss our results, I'll make a few observations on the operating environment. Some of which are highlighted on Page 3. Recently, there has been quite a disconnect between the weak market sentiment and the optimism we continue to see in corporate board rooms. The fourth quarter, particularly December, was characterized by a decline in investor sentiment with respect to the global growth outlook. A concern that central banks would continue to tighten into a slowing growth environment cause weakness in equity and credit markets and resulted in an increase in volatility of many macro assets. While this has created challenges for many of our institutional investing clients, it is also driving potential future opportunities for active managers to add value.

In addition for now the absolute level of activity in the real economy remains fairly robust, and this is reflected in broad CEO sentiment and our Investment Banking transaction backlog. Despite the global uncertainties, including U.S. China trade policy, Brexit, the planned removal of monetary policy stimulus in Europe and the recent yield curve flattening, our economy still see global growth of 3.5% next year, including 2.4% in the U.S., 1.6% in the Euro zone, over 6% in China and an acceleration to 2% in Latin America. Notwithstanding the mixed market and macro backdrop, we remain actively engaged with our clients across our franchise. Corporations continue to seek advice for strategic transactions, and there is a need for both equity and debt financing. Financial markets are open, and investors continue to need execution services, intellectual capital, hedging and liquidity solutions. Clients continue to need comprehensive asset wealth management advice, and individuals need simple and transparent financial services that add value.

Next, I'd like to take a moment to address the ongoing investigations related to matters with the Malaysian sovereign development fund, 1MDB. I want to proactively address some of your questions that I know are on the minds of our stakeholders.

First, we are cooperating with the Department of Justice and other regulators and are focused on a timely but deliberative process. We believe that we have established important facts in our own review of this matter over the last 3 years, and we, of course, would like to provide more information to you. But for now, this is still an open investigation, and we will naturally respect that process.

It's very clear that the people of Malaysia were defrauded by many individuals, including the highest members of the prior government. Tim Leissner was a partner at our firm, by his own admission, was one of those people. For Leissner's role in that fraud, we apologize to the Malaysian people. As you would expect, we have looked back and continue to look back to see if there is anything that we as a firm could have done better. At the same time, I want you to know before each transaction considerable due diligence was conducted. When control functions in other -- in the firm asked if each transaction whether any intermediaries were involved, they were told no. Tim Leissner himself said no intermediaries were involved in the transaction. As detailed in the government's charging documents, Leissner purposely concealed from the firm his scheme with Malaysian government officials, IPIC officials, 1MDB and Jho Low.

Significantly, and again as a part of our due diligence efforts at the time, we sought and received written assurances from both 1MDB and IPIC that no intermediaries were involved in the first 2 transactions. And in the final offering, the government of Malaysia itself and 1MDB represented that no intermediaries were involved in the offering. All these representations to Goldman Sachs have proven to be false. Also during this period, 1MDB's outside auditors with access to the books and records issued clean audit opinions.

In addition, I want to address the issue of Jho Low and how he was viewed during and after the transactions. We declined Jho Low's request to open a private wealth account in 2010 because we could not verify the source of his wealth. Out of prudence, we also declined to advise or represent Low on other opportunities he presented to us between 2011 and 2014. That said, during the same period of time, Jho Low's involvement in a number of transactions unrelated to 1MDB was well known to a number of financial institutions, including us.

In fact, before, during and after the 1MDB transactions, Low engaged with major companies, investors and other financial institutions in acquiring highly visible assets, from media to real estate. Clearly, a lot more is known about Jho Low today and at that time. This has been a difficult time, but I'm proud of how our firm has remained focused on our clients. Our client franchise, including in Asia, remains extremely strong. There are always important lessons to be learned from difficult situations, and it is a priority for me that we are self-critical and reflective to ensure that our culture of integrity, collaboration and escalation only improves from this experience. Please appreciate that I've tried to be as forthcoming as possible on my comments on 1MDB. I know that many of you will have additional questions, but I'm sure as you can understand, I can't say much more.

With that, let's switch gears and review our performance as highlighted on Page 4. For 2018 full year, the firm reported solid results. We generated firm-wide net revenues of $36.6 billion, our highest in 8 years. We delivered a return on equity of 13.3% and return on tangible equity of 14.1%. Importantly, we are making significant investments to further expand our client franchise, grow revenues and enhance the long-term earnings profile of the firm, the cost of which is being funded by the embedded operating leverage in our businesses.

In summary, I'm extremely pleased with our performance. We delivered a solid year, and our 2018 results leave us on strong footing to pursue our strategic objectives in 2019 and beyond. The team I have assembled to execute on our priorities, including John and Stephen, have an increased sense of urgency and discipline to help move our business forward.

With that, I'll turn the call over to Stephen, who will walk us through the details of our financial performance. Stephen?

Stephen Scherr

Thanks, David. Let me begin with an overview of our financial results on Page 5 of the presentation. The firm reported fourth quarter net revenues of $8.1 billion, resulting in $36.6 billion for the full year. We had net earnings of $2.5 billion in the quarter and $10.5 billion for the full year and earnings per share of $6.04 in the quarter, resulting in $25.27 for the full year.

Before I begin the detailed discussion of our results, I want to cover a few adjustments to our financials. First, to increase transparency and make our results more consistent with our competitive set, we now present our net revenues before credit provision. We have added a credit provision line to the income statement, and prior periods have been reclassified to conform to the current presentation. This has no impact on our bottom line results, but will give a basis for clear comparison.

Second, expenses related to consultants and temporary staff previously reported in compensation and benefits expenses are now reported in professional fees. This also has had no impact on the bottom line, but does result in $280 million being transferred between the line items for the full year. This change also reduced headcount by approximately 3,400.

In addition to the changes in the presentation of our financial statements, I would call out the following 2 items. First, our fourth quarter results included net provisions for litigation and regulatory matters of $516 million. Our total provisions for litigation and regulatory matters in 2018 amounted to $844 million. This obviously elevated our operating expense line for the year.

Second, our tax rate for 2018 was 16%. This rate includes a $487 million discrete benefit from a true-up of our prior estimate of the impact from 2017's tax legislation. The benefit reflects the impact of updated information, including subsequent guidance issued by Treasury. The 16% rate also includes the $269 million benefit related to equity-based compensation for the year. These 2 items, the tax true-up and equity-based compensation, account for approximately 6 percentage points of the decrease in our tax rate from our projected normalized rate of approximately 22% to 23%. It is important to highlight that pretax earnings increased $1.3 billion or 12% in 2018. This equates to an increase of approximately 130 basis points in return on common equity after normalizing for taxes year-over-year. This improvement in our operating performance was despite materially higher litigation expenses.

Now let me turn to the results overall. As David mentioned, the environment in 2018 turned out to be mixed. The first 3 quarters demonstrated continued strength in global equity and credit markets despite geopolitical uncertainty. The fourth quarter witnessed higher levels of market volatility, increased client engagement and negative performance across virtually all asset classes. Against this evolving backdrop, we concentrated on serving our clients and investing to drive our business forward.

Our overall performance in 2018 demonstrates the value of our diversified business model and the strength of our client franchise. This is reflected in the balanced revenue contribution from across our businesses as shown on the pie chart on Page 5 of the presentation. Further, 61% of 2018 net revenues were generated by fee-based or more recurring sources versus 48% just 5 years ago.

Turning to Page 6 and our individual segments. Investment Banking had an outstanding performance in 2018, producing near-record results. In the fourth quarter, the business produced net revenues of $2 billion, up 3% versus the third quarter as a significant pickup in M&A completions helped offset a decline in underwriting revenues as the difficult market backdrop slowed issuance volumes globally. Advisory revenues were $1.2 billion, up 31% relative to the third quarter, reflecting growth in completed M&A transactions. We ranked #1 in announced and completed global M&A for both the fourth quarter and the full year. We advised on nearly 400 transactions that closed during the year, representing approximately $1.2 trillion of deal volume. We also participated in announced transactions totaling nearly $1.3 trillion, which included over $450 billion from transactions below $5 billion in deal value, reflecting progress in broadening our client coverage.

Moving to Underwriting. Market volatility, declining equity prices and wider credit spreads weighed on issuer sentiment as net revenues were down 21% sequentially in the fourth quarter to $843 million. For the full year, Investment Banking net revenues were $7.9 billion, up 7% from 2017 on increases in both Financial Advisory and Underwriting. For 2018, in addition to our leading advisory position, we held the #1 position in equity underwriting globally. We were #2 in high yield and #4 in investment grade, reflecting our multiyear commitment to build our debt underwriting franchise.

Our Investment Banking franchise overall remains very well positioned and continues to grow. The strong performance reflects our continued focus on building long-term client relationships and our ongoing investment in talent and capabilities. We are ending 2018 with an Investment Banking backlog meaningfully higher than where we finished 2017, notwithstanding a decline versus last quarter. This increase comes despite the robust revenue production of 2018.

Turning to Institutional Client Services on Page 7. Net revenues were $2.4 billion in the fourth quarter, up 2% compared to the fourth quarter of last year. That's despite higher volatility and a difficult market backdrop, particularly in FICC. For the full year, ICS generated $13.5 billion of net revenues, up 13% compared to 2017, driven by healthier volumes, better wallet share and improved execution in certain of our businesses, notably in commodities. FICC client execution net revenues were $822 million in the fourth quarter, down 18% versus 2017 amid challenging market conditions, particularly in credit and, to a lesser extent, in rates. Credit accounted for roughly 3/4 of the year-over-year decline. Results were impacted by a deteriorating environment in high-yield and distressed credit as spreads widened. Lower levels of liquidity further exacerbated the challenges. I would also note that there was no one particular position to call out as having a material effect.

The remaining decrease reflected lower results in rates while the other FICC businesses were relatively consistent with last year's performance. While the fourth quarter was challenging due to the market environment, the overall business improved in 2018. For the full year, FICC net revenues were $5.9 billion, representing 11% year-over-year growth. Importantly, we continue to seek improvement in FICC performance through our strategic initiatives.

First, we successfully increased our wallet share by 65 basis points since 2016 with our institutional client base per coalition. However, this provided a minimal top line benefit so far given the market backdrop. Nevertheless, we continue to broaden our client and product footprint and deepen our relationships to drive higher rankings and market share.

Second, we remained focused on leveraging our best-in-class Investment Banking relationships to better serve corporate clients. Our efforts are beginning to yield results in commodities and foreign exchange. This is important as we are not relying on a market turn to yield better results, but are looking to expand our client footprint.

Lastly, we remained focused on continued investments in engineering and electronification. The enhancements of platforms and processes will allow us to better serve our clients and further streamline expenses and capital. Our new platforms enable us to innovate at a faster pace, scale our businesses and deliver differentiated client-centric solutions to our institutional and corporate clients. To demonstrate the momentum we see, revenues in our FICC electronic business were up more than 40% last year.

Moving to Page 8. In Equities, as it relates to the fourth quarter, the story is a better one. Net revenues were up $1.6 billion, up 17% year-over-year. Equities client execution net revenues were up significantly versus a challenged fourth quarter of 2017, with better performance in cash. Commissions and fees were 9% higher, attributable to increased client activity, following the significant uptick in volatility, particularly in low touch where we continue to gain market share. Security services net revenues decreased slightly, reflecting lower average customer balances.

For 2018, Equities produced net revenues of $7.6 billion, up 15% year-over-year. During the year, we continued to benefit from industry consolidation and ongoing efforts to increase client connectivity. Our share of global equity market volumes increased by over 100 basis points versus 2017 and included growth across all regions, reflecting a multiyear positive trend. We are optimistic that the theme of consolidation to scale providers can continue into 2019 as MiFID II only went live 12 months ago.

Moving on to equity Investing & Lending on Page 9. Equity securities generated net revenues of $1 billion in the quarter, reflecting continued strong results in private equity investments. Approximately 1/2 of the net revenues were generated from real estate, which primarily reflected gains from sales. For the full year, equity Investing & Lending generated net revenues of $4.5 billion. Our global private and public equity portfolio consists of over 1,000 different investments and remains diversified across geography and investment vintage as seen on the slide. We continue to reinvest to drive future long-term performance, with 47% of the investments in the portfolio made in the last 4 years. The equity balance sheet ended the quarter at $21.4 billion, including a public portfolio of $1.4 billion and $20 billion of private equity. Revenues in equity I&L are also generated from our CIE investments of $13 billion, substantially all in real estate.

Moving on to debt Investing & Lending on Page 10. In the fourth quarter, net revenues from debt securities and loans were $912 million, largely driven by net interest income of roughly $800 million. For the full year, debt Investing & Lending generated $3.8 billion of net revenues, including net interest income of approximately $2.7 billion. I would point out that before accounting for future growth, we begin 2019 with an annualized net interest income run rate of $3.2 billion. Our debt Investing & Lending balance sheet, as shown on the lower left of Page 10, ended the quarter at $113 billion, which includes $94 billion in loans and $11 billion in debt securities. Our lending is franchise adjacent and continues to remain conservative with approximately 85% of our loan portfolio secured as of year-end. This quarter, we took provision for loan losses of $222 million, reflecting loan growth.

Turning to Investment Management on Page 11. The business produced net revenues of $1.7 billion in the fourth quarter, which were flat sequentially. Management and other fees were $1.4 billion; incentive fees were $153 million; and transaction revenues were $186 million. For the full year 2018, Investment Management net revenues were a record $7 billion, up 13% year-over-year, largely driven by growth in incentive fees and management and other fees. Assets under supervision finished 2018 at $1.54 trillion. For the full year, assets under supervision increased $48 billion resulting from $37 billion of long-term net inflows primarily in fixed income and equity assets and $52 billion of net inflows into liquidity products. Those were offset by net market depreciation of $41 billion primarily in equity. Over the trailing 5 years, we attracted total cumulative organic long-term net inflows of approximately $215 billion. The business remains well positioned for growth as we continue to invest in people and make bolt-on acquisitions to enhance our product offering to better serve our clients.

Now let me turn to Page 12 for expenses. As we continued to invest in our businesses, we will not lose focus on our expense discipline. It remains a priority for David, John and me. Before going through the details, I'll reiterate that we are undertaking a full review of our firm-wide expense base. Relatedly, and as part of the front-to-back reviews, we are holding businesses to a higher level of accountability with a focus on operating efficiency. For 2018, operating expenses were $23.5 billion, up 12%. Nonetheless, we maintained a stable efficiency ratio of approximately 64% as revenue growth funded investments in our business.

Let me take you through the components of our operating expenses. Compensation and benefits expense was up 6% for 2018, amounting to half the rate of growth in revenues. This translated into a compensation and net revenues ratio of 33.7%, down 190 basis points versus 2017. On a like-for-like basis, our compensation ratio declined approximately 100 basis points year-over-year.

Fourth quarter other operating expenses were $3.3 billion, which, as I mentioned earlier, included litigation expense of $516 million as well as a donation of $132 million to Goldman Sachs Gives, our donor advised charitable fund. For the full year, other operating expenses rose 20%, and roughly half of the increase related to client activity and investments for growth. This included an increase of $656 million in provisions related to litigation and regulatory proceedings, approximately $300 million of higher expenses relating to accounting changes due to the revenue recognition standard. But substantially all of the remaining increase of $892 million from investments to drive growth and higher activity reflected in brokerage, clearing and exchange fees.

Moving on to taxes. As mentioned earlier, our tax rate for 2018 was 16%. Based on our current interpretations of the rules and legislative guidance to date, we expect our 2019 tax rate to be between 22% and 23%, excluding the impact of equity-based compensation.

Turning to Page 13 on Capital. Our Common Equity Tier 1 ratio was 13.3% using the standardized approach and 13.1% under the advanced approach, up 20 basis points and 70 basis points, respectively, versus the third quarter. The improvement in the advanced ratio reflected 80 basis points related to lower credit risk weighted assets due to inclusion of the firm's default experience into the determination of probability of default calculation. Our supplementing leverage ratio finished at 6.2%.

For the full year, we repurchased 13.9 million shares of common stock worth $3.3 billion, contributing to a reduction in our basic share count of 8 million shares for the year, reaching a record new low. In addition, we paid out approximately $1.2 billion of common dividends over the course of the year. In total, we returned $4.5 billion of capital to shareholders in 2018.

Turning to balance sheet and liquidity on Page 14. Our global core liquid assets averaged $229 billion during the fourth quarter. Our balance sheet was $933 billion, down 3% versus last quarter. We continue to shift our funding mix from unsecured long-term debt to deposits. In our consumer deposits business, we have raised over $35 billion, including nearly $7 billion in the U.K. Raising incremental consumer deposits continues to benefit the firm through increased funding diversification, lower financing costs and capacity to increase business in our bank subsidiaries. For example, in addition to carrying out the vast majority of the firm's lending business, GS Bank USA conducts rates, an increasing component of our FX business.

Before taking questions, a few closing thoughts. We entered 2019 well positioned despite the recent market volatility. We remain committed to serving and growing our global client franchise, building on the progress made in 2018 and further expanding our addressable market in 2019 and beyond. To achieve this, we continue to invest in our franchise to broaden and improve our client capabilities through technology, talent and by engaging in new disruptive activities.

Lastly, the management team is motivated by the initial learnings from our front-to-back reviews. Our early work indicates the need for certain change, but also reinforces the strength and breadth of our franchise. We will share more with you in the coming months. The continued push to evolve our businesses will enable us to grow and deliver attractive long-term returns for our shareholders.

With that, thanks again for dialing in, and we'll now open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question is from the line of Glenn Schorr with Evercore.

Glenn Schorr

And I want to talk about I&L. And it's a combo of -- in equity, I heard your comments about the public piece is a small piece, and I heard your comments about realizations were half from real estate or half of it was from real estate realizations. But curious if you can remind us how markets work in the private piece because, obviously, the public markets were down a lot, how much you use on DCF cash flow, EBITDA growth versus public comps?

Stephen Scherr

Sure. Thanks, Glenn. I appreciate the question. So in the I&L space, and I'll focus on the equity side as that's in your question, the private portfolio obviously is now a much larger component of the whole relative to public securities. And when we look at valuation in that private portfolio, I would tell you that on a revenue basis in the private portfolio, about 50% of that revenue comes from events relating to the underlying companies and 50% relates to the operational progress in that particular business. And I'll just give you a couple of examples just to give you a sense of it. So if you look over the course of 2018 in the private portfolio, we saw sales across a number of different names: Hearthside Foods, Ipreo, PSAV, Paycor, Centaur Gaming. All of those were either sales or partial sales.

And together, those five names contributed to more than $500 million of revenue in the overall results of the firm. I'd also point out that in the context of events that play out, obviously, those are sales or partial sales, but there are other situations in which there are incremental rounds of equity that comes in to a particular name, where there's other financing that goes on around a name. Two names that I'll point out, which were significant contributors to the P&L in the I&L side on equity was Woowa, which is a Korean investment; and a name you'll no doubt know, which was Uber, as there were a -- there was a transaction in the tender into SoftBank into which we and others participated. And that, too, contributed to an uplift in the P&L relating to that name. So the point I want to convey to you is that much of what happens in the context and 50% of the P&L on that private portfolio is not related to modeling per se but rather is generated off of an event, an observable event that goes on. The other half relates to general performance of the business. And on that, as you could imagine, we deploy a number of different metrics in terms of how we arrive at valuation. But I think the important element to convey on that side is that there's a long history in the investing side, particularly in equity, in both sourcing interesting and sometimes unique opportunities for businesses that demonstrate stability and growth trajectory. And that performance feeds into the methodology we deploy against the private portfolio. And again, this is independent of event-driven situations themselves.

Glenn Schorr

Okay. That's all very helpful, and it sets up for my follow-up on -- but I love the idea of the opening up of I&L. I'm curious in the vintage disclosure, it's hard to tell. But have you done any big raises in any of the prime funds in the last year or 2? And then more importantly, where are you in the process? In other words, I love the concept, house performance. Do you need to add staff? Do you need to build out on distribution? Or is it as simple as get your docs order and put out a new fund?

David Solomon

So I'll start, Glenn, and I'll just comment. Obviously, we've been in these businesses for a long time. And as I know you appreciate, there's been an evolving multiple businesses, and there's also been an evolving regulatory front that let us down certain paths with respect to the businesses. We do raise funds, and we have gone back in, for example, our traditional merchant banking private equity business to raising a fund. In the last 18 months, we raised an $8 billion or $9 billion fund. That's called Goldman Sachs Capital Partners VII, which is pretty much all client money. We have a plan, a current plan that raises -- and has a number of fundraisers over the course of the next couple of years. That's an existing plan, and it's something we've been doing. What we've identified that we think is a real opportunity given the scope of the magnitude of all the platforms over the firm is to add some resources and broaden the plan to raise more money off the capital given the uniqueness of our platforms and the uniqueness of our sourcing capability. And when you look at that opportunity and you compare what would be significant growth for us compared to other people that are in that business given our platform, our investing resources and our capability to manage money for institutional and individual clients, we have meaningful growth without setting overly ambitious targets. So we are in the process of outlining that all in a much more clear way. There will be some hiring and additional resources that need to be added, but it's not a significant build because the fundamental investing platforms exist, and there's more opportunity to leverage that.

Operator

Your next question is from the line of Michael Carrier with Bank of America Merrill Lynch.

Michael Carrier

Stephen, maybe one more, just on the I&L business. It's obviously one that's tough to predict. But when I think about some of the sales that you mentioned and how that drove the benefit in the quarter, can you give us any kind of color or indication of maybe what the value is in the portfolio versus, like, the cost base? Just to get some sense on maybe what the potential, like, realizations as you have these sales over the next year or 2 could potentially be?

Stephen Scherr

Sure. Thanks for the question. I think it's difficult for me to give you a sense of the delta in the [Technical Difficulty] relative to where we carry it. I would ask you to sort of rely more on the progression and the stability and sustainability of this business just in terms of what it has produced for many, many quarters over several years in the context of the investing. And I think that the strength of that franchise and the strength of the investing is sort of an adjacent thread that runs across the whole of the firm, which is that the Investment Banking franchise is an extraordinary sourcing engine off of which we look to make these investments. And we try to find opportunities where there is considerable opportunity for growth. What I sense in your question is the sort of distinction, if you will, between realized and unrealized gain. Part of what I wanted to point out in answering the prior question is that there's a good deal here of realized gain in the book and a continual velocity turn in the portfolio, and sales or partial sales sort of are one part of that. And then looking at the performance of the business is quite another. David and I have committed ourselves, and I've said this now several times, that our ambition is to put more light into the I&L segment, just given what it produces and how it is a major component piece. I know that you asked on the equity side. Let me just spend 2 seconds on the debt side of I&L, which I think has even greater durability and predictability to it. So this is where we are making debt investments or expanding credit in and around the adjacencies of the firm, whether it's the corporates or others who are themselves clients of the firm. We're doing that high up in the capital structure, and we've developed a portfolio that is about 85% secured.

And that has thrown up, as I said in my comments, about $2.7 billion of net interest income, with a run rate exiting Q4 of about $800 million in the quarter. And we think that's part of a more durable, more visible, more recurring set of revenue as part of the overall I&L picture itself.

Michael Carrier

Okay. And then just as a follow-up. Just on the expense side. So obviously 2018, I think you got some moving pieces with the -- some of the legal. But just when you think about some of the investments that you guys have been making in some of the new growth initiatives on the technology side, how should we be thinking about the run rate going into '19 and '20 in an environment where obviously the market has been a bit more volatile more recently?

Stephen Scherr

Sure. So let me make one sort of opening comment on expenses generally and these investments. We are very cognizant of where we on the market, volatility in the market and the like. And we will be mindful of the pace of our investment spend and the cadence of it in the context of the market. We know where our priorities lie. And as into the extent the market changes or circumstances change, we know where there are levers to sort of throttle back if, in fact, we need to. So that whole investment cadence, if you will, can remain very agile, and we'll be mindful of it. If you look at '18, we had an increase in overall expenses of about $2.5 billion. About $700 million of that related to compensation, $1.8 billion related to noncomp. Again, in the noncomp, about half of that related to higher provisions for litigation and rev rec, which sort of isolates in on about $892 million of increase in spend relating to investments that we view as driving growth and higher activity in BC&E. All of the investment spend in the different projects that David and I have been talking about, whether that's in Marcus or whether that's corporate cash management or whether that's the building incremental platforms inside the securities and trading business, is in that $892 million. As I said, 2019 will be a continuation of the investment. My view is that the rate of growth in that expense, while it will grow, the rate of growth will be less than the rate of growth that we saw in '18, and we're going to continue to look to deploy existing operating leverage in the business as a source of that investment spend in the business overall.

Operator

Your next question is from the line of Christian Bolu with Bernstein.

Chinedu Bolu

David, maybe just stepping back a little bit here. Curious what you think will drive superior long-term shareholder returns. I think over the last two years, the firm has actually executed pretty well. You delivered better than peer revenue growth, better than peer core ROEs. Despite that and put into their side, the stock has underperformed even before the 1MDB issues. So what changes going forward? Is there some reason you think the market will finally start to give the stock credit for revenue growth at ROE? Or are there just other metrics you should be focused on to drive shareholder returns?

David Solomon

Sure, and I appreciate the question. Obviously, we're cognizant of the way the market is looking at our business mix, and we're also cognizant of the performance of the stock. It's very hard for me to predict, and I won't try to predict when the market will recognize our returns and our progress, but it's our job to stay focused on delivering those returns for shareholders. And over time, if we do, I'm confident that we'll be balanced in an appropriate way. We've been very focused for a number of years on diversifying the platform and moving forward. I do want to say, just to put in context and to highlight maybe in a different way, some of the progress we've made. And many of you obviously have been following the company for a long time.

If 3 to 5 years ago, we said on one of these calls that in 2018, we would have a year where our FICC ICS revenues were less than $6 billion, we were making significant investments in building out a digital consumer platform and we happened to be in a situation where we had [indiscernible] litigation expense that we would deliver $36.6 billion of revenues and a 13.3% return, people would have said, not possible. And the reason that that's happened is we have been working for a number of years to broaden our business, expand our addressable wallet and, at the same point in time, increase the durability of our revenues. And you can see from the slide that we put up at the beginning that over the last x number of years, 5 years, we've moved from less than 50% more fee-based recurring revenues to over 60% today. We continue to be committed to that. And as we're developing a plan to move forward, we see things we can do in the existing businesses and adjacent build, some of which we mentioned, where we feel very confidently that we can continue to push returns higher, especially if we also continue to be focused on running the firm more efficiently, which as Stephen stated, we're very committed to doing.

So I think we're in a position where we have opportunities to continue on this path that we've been on. I think one of the things candidly that we need to continue to do better, and I hope you see through this call we are committed to doing, is we need to do a better job giving you information and explaining what we are, what we do, how we do it. I think we're making progress. But I think candidly, we have work to do, and we're going to continue to remain focused on that. And we hope over time, if our focus on expanding the business and diversifying the business while staying true and excellent in the things that have always been core to the business while communicating better, ultimately, the market will follow. And so that's what we're going to stick to and do.

Chinedu Bolu

I appreciate the candor, and what I sense is a sense of urgency in your voice. On FICC, you talked about optimizing the business. So just help us level set here kind of what are the margins or ROEs in the business today. What can you exactly do to help that business get to an ROE that's closer to the firm-wide ROE? And then on FICC top line, I guess if increasing electronic volumes and improving wallet share aren't driving material revenue growth or material revenue share growth, what do you think will actually drive revenue share growth going forward?

David Solomon

Okay. So I'm going to start, Christian, by making a couple of comments, and then Stephen will go into, I think, a little bit more detail on some of the specifics that you mentioned. But I just want to start by saying that I really like our FICC business. It's a really big, important business. But we're not confused by the fact that the available wallet in market intermediation for large institutions has materially declined over the course of the last five years. One of the things that's been interesting for me over the last two years once I became president and I started spending more time with the broader diverse array of our clients, I'd always go out for the last decade, more than a decade, and see Investment Banking clients. And they always told me how extraordinary they thought are people were, the way our teams work together, the way the executed. As I've had an opportunity over the last two years to go out and spend a lot of time with Securities division clients and with clients of Fixed Income, they say exactly the same thing. Your people are really differentiated. Your risk takers and the capability is really differentiated.

Your execution is really differentiated. We have a very, very strong client franchise business, but's it's in a business where there's been fundamental change and wallet change. I would highlight that if you go back and look at our wallet market shares before the financial crisis in 2005, '06 and '07, our wallet shares were in the 8%, 8.5% range. And if you look at our wallet shares today, our wallet shares are around 12%. And so there was an aberration during the 2009 kind of period where the wallet shares peaked, but we've continued to build this franchise, and we're laser focused on building it. The one thing that I said in my comments that I just want to reiterate is we accept the size of the wallet share that exists, and it's our job to run the business well based on that wallet share to allocate capital over time efficiently and to run that business in an effective way from a cost perspective, and we continue to do that while continuing to invest in the client franchise. And so Stephen, I think, will make some comments to add on some of the more specific detailed parts of the question.

Stephen Scherr

Christian, so just to pivot off of David's comments. I mean, I think the objective here is to identify the appropriate TAM. I mean, what's the addressable market that we're playing for? And you are absolutely right to point out that our increased market share, and David was referring to it, among institutional clients has not, in the last couple of years, demonstrated revenue conversion. And so part of that is moving us in a direction to expand our corporate coverage and corporate touch point as it relates to the FICC, and that's using channels that exist and relationships that exist in Investment Banking. And as I mentioned in my prepared remarks, we've seen modest improvement in that, particularly in commodities and foreign exchange. And it's against that addressable market that we're going to take and are taking in part of -- as part of the front to back of U.S. to the proper expense size against that wallet and against that TAM, the amount of debt and liquidity we need to put against that business, the amount of risk that we need to take on in the context of intermediating risk for clients and then, ultimately, the amount of capital to put against it. This is not something that David and I have just woken up to.

In fact, if you look at over the last several years, 3 to 5 years, there has been a lot of work on going inside the business to reduce expenses by about 30% in that period, reduce RWAs by about 40% in that period. And most importantly, an active and engaged move to reallocate capital around the firm, moving it away from a smaller business in FICC and putting it against Investment Banking or other businesses around the firm. And so while we have not sort of put as much headline to a lot of that activity as perhaps some of the other institutions, this is an evolutionary process that we've begun. It now has a greater sense of urgency and purpose in the context in which David described it, and I think we have a clear view, along with those running the business, about how to get to the right place and the right size of input allocation to the business itself.

Operator

Your next question is from the line of Guy Moszkowski with Autonomous Research.

Guy Moszkowski

First of all, before I ask my question, I just want to say I think it really does serve shareholders very well that you're doing this new, more fulsome strategic review and outlook. So I just want to thank you, I guess, on behalf of everybody for that. It's very useful to see.

David Solomon

Thank you, Guy. I appreciate that.

Stephen Scherr

Thanks for the feedback.

Guy Moszkowski

Yes, no worries. So I just want to follow up on Christian's questions on FICC. I was hoping maybe you could quantify for us the capital reallocation and the expense reallocation that you alluded to both in your prepared remarks and also in answering his question.

Stephen Scherr

Yes. I mean, I think the quantification that I can give you is really sort of part of what I was responding to in terms of Christian's question, which is in the last five years, as I said, we've taken expense down 30%, RWAs by 40% and reallocation of capital. I think my hope and my expectation is that David and I will be back to you over the course of the next several months with a very clear indication about the specific allocation of resources. And I'm not hesitating other than part of the front-to-back review that we are engaged in right now is to answer the very question you're asking, which is, again, understand the addressable market, including an expanded set of customers and clients that we will focus on and then being quite clear about what our taking that market can be and then the inputs to driving that business, whether it's expenses, liquidity, capital and otherwise. And my expectation is we'll be back to you with a clear view as to how that will take lift over time.

Guy Moszkowski

Okay. That's helpful. And obviously, we'll be looking for that. Follow-up question is in a different direction and just follows up on the comments that you made about the 1MDB situation and the litigation reserve bill that you quantified. The -- I guess my question would be, can you give us a sense at this point as to about how much bigger your reasonable -- reasonably possible loss or RPL will be that we'll see in the 10-K?

Stephen Scherr

Sure. So again, just to sort of be clear with folks as to what we said. So the fourth quarter litigation expense was $516 million. For the full year, we took litigation expense of $844 million. And as we sit here now, and so my comment on the RPL, which will obviously be disclosed in the K, now is premised only on what we know now and nothing more, so that could change. But based on what we know now, the RPL will be in the neighborhood of about $2 billion, independent of the reserves that I otherwise listed off for you.

Operator

Your next question is from the line of Matt O'Connor with Deutsche Bank.

Matthew O'Connor

I was wondering if you could talk a bit more about how you're thinking about the optimization of capital. Should we expect it to be kind of moving from one area to another area of the firm? Or are you hoping to maybe free up some more capital for shareholder buybacks and dividends and things like that?

Stephen Scherr

So I would say that there's a couple of variables in terms of the deployment of capital as a general matter. First, we obviously look at opportunities to deploy capital in accretive opportunities around growth initiatives, and so we'll continue to do that. And that is, in effect, redeploying capital from businesses that show less promise in terms of their overall return to those opportunities, both existing and new growth businesses, that show higher promise. Secondly, and I don't have to tell you, that there are limitations obviously to what we can do in terms of share buyback by virtue of CCAR, and we will continue to be as prudently aggressive as we can be in terms of the return of capital within the confines of CCAR. And obviously, we have yet to receive the scenario planning for this year, but that will factor in as best we can. And so I think that's the way to think about the deployment of capital, generally speaking. One, being an internal reallocation based on growth. But second, and in the growth sense, we want to invest in areas which will carry accretive returns for our shareholders and that can grow. And so our ambition and our MO will be just around that.

Matthew O'Connor

And then maybe a question for David on the capital theme still. You're clearly reviewing the businesses. You're looking to make the revenues more annuity-like than they've been. Is there something that you think you can accomplish organically? Or do you think it -- maybe it'll be supplemented by deals? And obviously, within deals, you've done some small bolt-on ones. But there does continue to be some questions, I think, among investors and analysts about the need for a bigger deal to help balance out the business. So maybe if you can just comment on your thoughts on that.

David Solomon

Sure. So look, as you would expect us do, we'll look at all options to grow the franchise both organic or inorganic. We're extremely focused on the organic opportunities, and we actually think the plan we're developing, which is an organic plan, can drive to meaningfully higher returns over time. And the preference would always be to drive organic progress in the business. I've said to many of you in meetings I've had in with you individually, and I'd say it here, we'll look at inorganic opportunities. I think you'll continue to see a few smaller add-on opportunities across our businesses, particularly when you look at asset management and wealth management. But the bar for doing significant inorganic move is extremely high. And as someone who's been around M&A for a significant portion of my career, I know the bar to do that should be extremely high. But it's our job as a management team to be well-versed on any opportunity that we think can advance our returns and our cost for shareholders, and we'll operate that way as we move forward.

Operator

Your next question comes from the line of Mike Mayo with the Wells Fargo Securities.

Michael Mayo

If I can try a 1MDB question. So how much of this is related to the U.S., like were the securities -- were any of the securities -- U.S. securities or any of the buyers in the U.S. or any of the transaction structure in the U.S.? And the reason I ask is to help determine whether or not the Securities Exchange Act of 1933 or 1934 apply?

Stephen Scherr

Mike, thanks for the question. These securities were all reg S securities sold to non-U.S. buyers. And we're not structured in the U.S. nor under Reg S. We're destined to be sold to U.S. buyers.

Michael Mayo

All right. That's helpful. And then a more general question. 1MDB certainly is in the news. There's been many articles talking about the morale of employees and the potential impact on customers. What is the spillover effect of 1MDB on customers, employees, business or any other way other than what's happening in the legal and regulatory realm?

David Solomon

Sure, and I appreciate the question. Obviously, we think about this, and we monitor it carefully. First, I'll talk about employees first, and I think morale and the firm for employees is high. Employees feel good about the performance of the firm. They do not like the fact that we're dealing with the situation in 1MDB. And certainly, I think people here are extremely angry and upset about the fact that we had a partner of the firm involved in such a significant fraud. And as I said in my remarks, that's something that we have enormous regret about. But the business has performed well. I think people recognize that this is something that we're going through a deliberative process of resolving. But people feel good about the firm, our client franchise, the work they're doing with our clients and the way the firm's positioned. In terms of our clients, we obviously are extremely engaged with our clients and are talking to our clients on a regular basis, and I would say the impact on our client franchise at this point across the globe has been de minimis. I'm not, in any way, shape or form, not aware of all the noise in the press and all the articles. And I read them, I watch them as you do. And I, for a moment, would not say that the impact of this is a reputational dent to the firm that we have to and we'll work through. But that said, as we deal with clients and we stay focused on our clients, we're executing for them. And I think you also have to be cognizant of the fact that a lot of what gets in the press and where it comes from has motivations in the context of the resolution of what's a difficult process.

Operator

Your next question is from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck

Question on the cash management business that you talked about at the beginning of the call, David. I just want to understand how much the investment is going into the technology side and how you're investing in the plant and equipment in terms of the banking licenses globally that you need in order to have this type of offering. Or do you partner with local banks? And then I have a follow-up just related to that and how you're thinking about the loan growth.

Stephen Scherr

Sure, Betsy. It's Stephen. I'll take that. So in the context of corporate cash management, you'll remember that our interest in this was in part a view that when we look at sort of the most significant relationships that we had in Investment Banking across those corporates that they were paying a considerable amount to the market, almost equal to that, that they pay in the market in which we participate, namely our Advisory and Underwriting business, but they were paying in and around Treasury services and corporate cash management. And given that this had historically been kind of the problems of lending banks, the fact that we have picked up our lending and credit into these, sort of gave us an entry point for this conversation. I'd also say that what we perceived was a pain point among corporate treasuries that the technology and the platforms they were working with were underwhelming. And what's more, if you look at what banks have been paying on operational deposits, it's been de minimis. And so from our perspective, this is something where with a clean sheet of paper, we can build the technology, we can design it, edge your way to address those pain points.

And candidly, from a competitive point of view, the operational deposits are quite attractive to us even if we pay rates well above that, which are being paid by other banks just in the context of substitution for wholesale funding. When you look at the technology that we're building, I would say that there's a certain element of it which is synergistic with other technology builds that we have been undertaking, including Marcus and including what we've been building and strengthening the legal equity of GS Bank US. So for example, the development of the payments hub, which is obviously central not just to what we do in the context of Marcus, but equally what we would do in terms of corporate cash management. This business has developed over the last 5 or 10 years in terms of the ability to make use of many, many vendors to build this in the cloud, to integrate those vendors in a way that would have required organic build inside the organization, in a way that's not necessary now. I think as we build this and as we grow this, we're going to be selective. And we won't be all things to all people out of the box. We will select certain currencies among the major currencies where we will play. There are interesting vendor solutions that can take you to secondary and tertiary markets, where you don't necessarily need to build correspondent banking relationships on as proliferated a basis as you had 2 years ago. And so we intend to do that, that way. And so I think the technology is at hand. It's the right time to be doing this, and I think we can execute this. I'd also point out, just as an aside, that the first customer of this platform, in fact, will be Goldman Sachs such that we can reduce the cost of our own operational deposits outside of the bank, and I think in the process, de-risk the firm from that perspective.

Betsy Graseck

And when you think about how you get paid for this business, I mean, historically, in the industry, part of it has come from lending. So I just wanted to confirm if that's part of how you're expecting to get paid, but also how you think about the capital allocation to the loan book, not only in corporate, but in consumer. Awhile back, there was some commentary that maybe Marcus loan growth would be slowing. So if you can touch on that and also how you think about the balance sheet utilization towards loans versus towards buybacks.

Stephen Scherr

Sure. So I just want to be clear. When we look at the P&L prospect and we model out what returns we can get, return on lending is not part of what we look at in the context of corporate cash management. I'll come back to your lending question. But in the context of corporate cash management, there are basically 3 components, okay? One, and the most significant, are operational deposits. They are useful to us. They're probably more useful as a substitute for wholesale funding. The second, which ties back to an adjacency into our securities business, is the captive FX that plays out in the context of corporate cash management more generally. And then the third, which candidly is probably the smallest of the three, is fee-for-service.

When I was referring to lending, what I was pointing out was that for a long, long time, this was a business that was sort of exclusively in the province of lending institutions to corporates. Over time, we have grown our corporate lending book for reasons obviously unrelated to corporate cash management because it wasn't in the plan years ago but as part of what we've been doing strategically and growing and developing in terms of a broader set of products and relationships with corporates. That has been ongoing. That will continue to go on. It will go on with all of the attending risk issues and the like. But the P&L, if you will, that's generated from that lending, is not a motivating factor. It's just me pointing out to you that it had been, in effect, a gating item in a way in which corporate cash management had been thought about. And so we are a lender and a more prolific lender in that regard, and therefore, think we have more sort of access and right and title to sort of play and compete for this business.

Operator

Your next question is from the line of Brennan Hawken with UBS.

Brennan Hawken

Curious on Marcus deposits. We've heard here in the last few days a few banks commenting on the likelihood that we could see retail deposit costs increasing even if we don't see any short-term rate increases. If that plays out in 2019, could you maybe let us know how you would think about keeping your position competitively in the market at the upper end of that bound as far as payout goes, how you would adjust? Just how should we think about that as far the market deposits go?

Stephen Scherr

Sure. So I think if you look historically from the time that we acquired the GE deposit platform in the U.S., I would say that the beta was lower than where it's going, meaning it'll remain lower than one, but in the rate environment in which we were in, it was very little by way of movement and rate. There's been more acceleration of rate in the context of where interest rates have been moving. Our objective in the U.S. has always have been -- has always been to be in the top kind of 2, 3 or 4 in the sort of tables as rate paid. And I would point out that while we're not particularly motivated to pay more than we need to, the draw on these deposits is obviously rate dependent. And even at levels well beyond that which we're currently paying, these remain very accretive sort of funding to the firm relative to where we fund on a like-for-like duration in the wholesale market. And I think the diversification overall that's brought to us by these retail deposits is positive. And so that's kind of the story on rate. In the U.K., I would say that we opened up to be perfectly candid with much more demand than we had anticipated, and I think that'll give us an ability to moderate sort of the acceleration of rate in that. And I think we were the beneficiaries of sort of hitting a nerve in the U.K. market where we were paying more than the high street banks, and deposits came our way. But the influx of that, I think, will give us more maneuverability on the rate side.

Brennan Hawken

Terrific. I appreciate that. And then for my second question, while we've seen spreads net back and the loan market recover here, CLOs and levered loans became a big topic in the fourth quarter. So could you maybe let us know how you manage the risks of the warehouse? How much of your warehouse is funded with third-party equity? And if it is fully funded with third party, how you manage counterparty risk to those providers?

Stephen Scherr

Sure. So that can go in a number of ways. I'll start by saying that our CLO exposure is small. It's in the neighborhood of about $2 billion, about half of that is funded. If you look more broadly at our risk exposure in terms of leverage lending and the like, it remained small on relative terms. If you look at our underwriting book, our underwriting book skews heavily toward investment grade. And if you look at LBO risk, it's single digit in terms of where it sits and appreciably lower than where it was certainly if you go back to the financial crisis itself. And so we feel very good about our risk. I would say that we come into '19. And as I and others from a risk perspective look at the book, we feel comfortable at the flex that we have in our underwriting commitments. We are pleased at sort of the underwriting concessions. We're seeing flow of funds back into bond funds and loan funds, took a turn into January relative to the outflows that we saw in December. We're seeing investment-grade deals move. We're seeing caps in the term. So all of the, if you will, indicators on the dashboard are playing more favorably than what we've seen in the past, and I think we're very, very comfortable in terms of where we are in overall risk.

Operator

Your next question is from the line of Steven Chubak with Wolfe Research.

Steven Chubak

So I wanted to start off with a question on some of the efficiency commentary. And I have to say I was quite encouraged by the remarks really from both of you, Stephen and David, on focused driving efficiency, the higher accountability from the individual teams. And one of the interesting things that's been a big focus from investors is when we benchmark your efficiency ratio against the peers and really focusing in on the businesses that are comparable. The efficiency ratio range for the peers sets about 55% to 70%. It looks like you shook out somewhere closer to 64%, so already closer to that midpoint. And I'm just wondering how -- whether you can give us some insight to how you're thinking about long-term efficiency goals, really how you're benchmarking yourself across the peers as you continue to drive that focus on efficiency across the individual teams.

Stephen Scherr

Sure. So thanks for the question and for the comment. I mean, our view on efficiency ratio and the migration there is that we need to look across all expenses, particularly as we're building out sort of more platform-driven businesses, which will be less compensation, if you will, expense intensive and more operationally intensive. And obviously, the marginal margin as you build scale around those will increase, and so hence, our turn in that direction. I would point out that if you look at the efficiency ratio, we report a number which is flat year-on-year, again notwithstanding growth and expense of 12%. But equally, litigation reserves in that number took that number in a direction where it would have been about 230 basis points lower in terms of the efficiency ratio than where we reported it. I'm not suggesting that what we reported is anything but correct, but just to give you a sense of the migration. It's hard to know right now and to give you a sense of what the forward target would be. I think over time, you should expect us based on the revenue -- the durable revenue that David was talking about and recurring revenue on the basis of platform that we will extract greater efficiency in the business as the business skews in that direction and as we run through this front to back. And in the coming months as we meet and sit with more of you, my hope is that we can guide you, directionally speaking, to where this will go. But the downward trend is one that we hope to continue to realize.

Steven Chubak

Stephen, those insights are quite helpful. Just one follow-up as it relates to some of your comments on the marginal margin improving, and I know it was a little more than a year ago when you initially laid out those growth targets on the revenue side of $5 billion. You had talked about a marginal margin of 50%. Clearly, that's required some frontloading of investment. But I'm wondering with about half of the incremental revenue growth still ahead of us, how we should think about that incremental margin on the next $2.5 billion of revenue growth that [Technical Difficulty].

Stephen Scherr

[Technical Difficulty] example of that is in any lending business, when you are in a growth mode, you continue to have reserve build right to the point at which you are at a comfortable, steady state. And from there, you start to see the margin increase. And so I think that each of these businesses, whether it's corporate cash management or Marcus, are all in their early stages. They haven't yet hit their stride, notwithstanding our expectation that they'll hit the targets we set for them in 2020. Those targets were, by no means, a limit of where we think we can take the firm in terms of the overall growth trajectory generally. I would also say that the commentary on efficiency and higher marginal margin should not be limited exclusively to kind of the growth initiatives themselves. So look at FICC, for example. FICC over time, and David was talking about this, there's an element of platform electronification as a means of which you can drive higher volumes in a narrowing a bid-offer spread. And I think even there, as we progress the initiative to build out those platforms, we'll realize greater margin. Again, that's an incumbent business. So the commentary is not limited to those on the growth side.

Operator

Your next question is from the line of Jim Mitchell with Buckingham Research.

James Mitchell

Maybe a strategy question in retail. I always think of Goldman's core competency is creating wealth management, and you kind of led with retail banking. And just -- I appreciate the comments on starting to build out a digital wealth. Have you thought -- or is it in your plans to think about also building out more of a complete brokerage platform as well to kind of leverage your gain throughput through your institutional platform?

David Solomon

So as we talked about, as we think about Marcus and we think about Marcus as it started with one plan -- with one product. Our plan has always been to build a platform, and that platform would be digital, and it would be a storefront over which we could distribute multiple products, some products that we originate and come off our platform, some products maybe that we distribute for others. There's always been a focus on the fact that we have a massive wealth management business at the very, very high end. And we've always shied away from broadening that footprint or making it more retail, for another lack of term, because the only way you could do that previously was to basically own a big brokerage. And there were a lot of reasons why we didn't think, for us, that owning a big brokerage was something that we wanted to do as we thought strategically going forward about where the firm would go. But now with a digital platform, we have opportunities to acquire clients and feed clients into our platform on a much more effective cost of customer acquisition basis. And so our vision is to continue to build out that platform and add more products and more connectivity into our wealth management business over time.

Operator

Your next question is from the line of Devin Ryan with JMP Securities.

Devin Ryan

Great. I guess, first question here, you gave a little bit of a preview, so I'm just going to ask another one on the front-to-back review. I think it's largely been viewed as kind of a net cost-cutting capital reduction exercise. But on the other side of that, do you have any early reads on what specific existing businesses look like they might deserve more investment or more capital than maybe you previously realized? And just so that we know, is this going to come with first quarter results? Or when should we expect this?

David Solomon

Sure. So first, obviously when you want a front to back and you look at your businesses, there's an element of cost-cutting and capital allocation. But the real purpose of looking at businesses front to back, the starting fundamental purpose is to understand your addressable market and the opportunity set and then with your resources to figure out the most effective way to deliver on it. So I want to be very, very clear. As any new management team would do in any large company, as they start down the path of evolving a strategy, you really want to look at the opportunity you have in businesses and then your ability to deliver on those opportunities. And so at a high level, the purpose of the front to back was both opportunity and then also efficiency, as you highlight. Stephen has a couple of other comments just with respect to kind of the detail.

Stephen Scherr

Well, I would just point out, I think that this is going to cascade down in the organization, meaning our ambition is to put more of the costs in the direct control of the businesses so that they are owning the front to back. In effect, they ought to own their pretax line, meaning they're owning both their revenue line and the cost base. Now I should point out that we will keep certain functions in at the core, as you would expect us do from a control and risk point of view. So there'll be elements of ops and elements of tech that are held at the core. And needless to say, second and third line of control remain at the core. But we're looking to sort of put costs into the control hand of the business and driving businesses to a greater efficiency proposition in terms of how they conduct themselves.

Operator

Your next question comes from the line of Gerard Cassidy with RBC.

Gerard Cassidy

Can you guys share with us -- and I apologize if you have addressed this. But what impact do you think the MiFID changes has had on your equity business? Obviously, you had good numbers this quarter, year-over-year growth as did some of the large -- your large competitors. Can you give us some color? We're 12 months into it, what have you guys seen from the changes with MiFID II?

Stephen Scherr

Sure. So what we have seen from MiFID II is really market share consolidation, and it's played out at one level by geography and then another level in terms of individual firms. So we've seen more share consolidate, and that consolidated share move out of certain of the European banks and into the U.S. banks in terms of share of equities. And then within that, it's become kind of a tight game of which, needless to say, we are a major player.

And so our expectation is that we're going to continue to see that consolidation. My hope is that we continue to benefit from that share consolidation. And I think we do so in part because we've developed over many years, and we'll continue, research platforms and high-value content that we can play out. And the share comes back to us in -- as a consequence.

Operator

At this time, there are no further questions. Please continue with any closing remarks.

Stephen Scherr

Okay. Since there are no more questions, we would like to take a moment to thank everybody for joining the call. On behalf of our senior management team, we hope to see many of you in the coming months. If any additional questions arise in the meantime, please don't hesitate to reach out to Heather. Otherwise, enjoy the rest of your day, and we look forward to speaking with you on our first quarter call in April. Thank you.

Operator

Ladies and gentlemen, this does conclude the Goldman Sachs Fourth Quarter 2018 Earnings Conference Call. Thank you for your participation. You may now disconnect.

Comments (0)