Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we'll refer to our earnings release and financial supplement. Copies of which are available at morganstanley.com. Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release. This presentation may not be duplicated or reproduced without our consent.

I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Good morning everyone. Thank you for joining us. 2019 has started well. In the first quarter, our business has produced solid results and rebounded from the fourth quarter's market dislocation and idiosyncratic events. In our Institutional businesses, client participation and balances steadily improved alongside confidence and asset prices. While activity was not as robust as early 2018, the improvement in sentiment, CEO dialogue and boardroom conversations were all encouraging.

Our Wealth business absorbed lower fourth quarter asset levels and delivered strong results. The margin demonstrated the business' ability to withstand shocks to asset values. In Investment Management, we've posted very strong investment results, particularly in private real assets and private equity. Broad client relationships have driven net inflows in our global equity strategies, where long-term performance continues to attract investors.

We remain confident in the firm's outlook and broader economic activity, but we're cognizant that global risk more balanced. Against this backdrop, we remained very focused on expense discipline, while it's still investing for growth. This focus is evident in the results. On a year-over-year basis, total non-interest expenses declined 4%, even as we continued our investments.

Across the board, ROE, ROTCE, the firm efficiency ratio and Wealth Management margin are in line with or at the higher end of our strategic objectives, ensuring a very solid start of the year.

Consistent with our objective to investment growth, we announced our intent to acquire Solium Capital, a leading global software provider for equity administration, financial reporting and compliance. This transaction will enable us to bring together a major stock plan administration platform with the leading wealth management business, positioning us to be a top tier provider in the workplace wealth space. Through Solium, we gained a new scalable channel and direct sales force getting us the ability to target another client population, particularly a younger demographic and its wealth accumulation phase.

On a combined basis, we will now have direct exposure over 2.5 million individuals by Solium's workplace services, complimenting the other three million wealth management clients, our financial advisors already served in our traditional business. What excites us is the expansion into the workplace? Delivering financial wellness services to clients and offering financial advice, education and the ability to transact through their employer. This deal is aligned with our strategic objective to round out our product offerings with complimentary bolt-on acquisitions. And we will continue to look for similar opportunities.

We recently announced that Colm Kelleher would be retiring from the firm effective June 30th. As all of you know Colm was the Chief Financial Officer during the global financial crisis and was critical in helping navigate the firm through those challenging times. Over the course of his study and career, Colm has served in a number of important roles across our businesses, most recently as President of the firm. I'm extremely grateful to Colm for his contributions. And it has been a great privilege to call him my partner for the past decade. As we move forward, the Board and I very focused on long-term development of our management team.

So now, I would turn the call over to Jon to discuss this quarter in greater detail. Thank you.

Jonathan Pruzan

Thank you and good morning. January opened with fragile sentiment and lackluster conviction, while we witnessed a gradual improvement as the first quarter progress signs of the December hangover and the U.S. government shutdown were evident. Clients took time to regain confidence, and industry volumes declined impacting our ISG businesses.

Lower asset values at the end of 4Q impacted Wealth Management and Investment Management fee revenues. Still, the firm produced solid results. Revenues of $10.3 billion declined only 7% year-over-year compared against the strongest quarter in the firm's history ex-DVA. On a sequential basis revenues increased 20%. PBT was $3 billion and EPS was $1.39.

The firm delivered returns at the high-end of our target ranges with an ROE of 13.1 and ROTCE of 14.9. We continued to focus on expenses while investing in the business. Total non-interest expense was $7.3 billion, down 4% from 1Q '18. We remained committed to funding investments to tight focus on our more controllable expenses such as marketing and business development and professional services. The firm's non-compensation expenses were down 2% year-over-year despite elevated Brexit-related expenses and ongoing investment and technology.

Now to the businesses. Institutional Securities generated revenues of $5.2 billion in the first quarter, a 35% sequential increase. EMEA rebounded nicely, and Asia also demonstrated strength. We saw client activity and engagement gain momentum in the back half of the quarter.

Non compensation expenses were $1.8 billion for the quarter, a 3% decline from the prior year.

Compensation expenses were $1.8 billion, resulting in compensation to net revenue ratio of 35%, consistent with last year's ratio.

In Investment Banking, we generated revenues of $1.2 billion, a 19% increase relative to the fourth quarter, after a slow start momentum and confidence picked up.

Advisory revenues for the quarter were $406 million, down 45% sequentially. Completed M&A volumes declined 38% relative to an active fourth quarter. Importantly, there has been a pickup in activity levels, and pipelines are healthy.

Turning to underwriting, new issue market conditions were more challenged at the outset, but issuance built momentum as the quarter progressed. Our equity underwriting franchise remained strong. Revenues of $339 million were up 5% quarter-over-quarter. The sequential strength in blocks, follow-ons and convertibles offset weak IPO revenue. IPO volumes witnessed a short sequence of decline of 79%. Many issuers were sidelined by the U.S. government shutdown.

Fixed income underwriting revenues increased 13% sequentially to $406 million. We saw an increase in bond issuance volumes across investment-grade and high-yield, while our leveraged loan activity remained muted.

Overall Investment Banking pipelines remained healthy and diversified across products, regions and sectors. CEOs remain engaged the global equity pipeline has built through the quarter, particularly IPOs, and market volatility is subdued.

However, as demonstrated by recent market dynamics, future activity may be impacted by macro economic uncertainty and geopolitical events.

In equities, we retained our leadership position and expect to be number one globally. Revenues were $2 billion, declining 21% year-over-year and increasing 4% quarter-over-quarter. On a sequential basis, derivatives and cash revenues improved with derivatives benefiting from improved markets and corporate activity.

In prime brokerage, sequential and year-over-year revenue declines were driven by lower average balances. Clients gradually relevered and balances partially recovered over the course of the quarter and continue to build. While market indices have rallied materially and sentiment has improved, clients remain cautious.

First quarter fixed income results were strong following the traditional seasonal pattern. Revenues in 1Q were $1.7 billion, more than doubling weak fourth quarter results. Overall, client activity improved over the quarter. The market was generally characterized by tightening credit spreads, declining interest rates, low volatility and uneven client activity across business lines as well as benefits from structured client activity.

Macro rebounded broadly on a quarter-over-quarter basis. Compared to prior year, our macro performance reflected dampened volatility impacting structure rates and FX. Macro investors remain sideline lack in conviction and awaiting clarity around Central Bank policy, Brexit and U.S.-China relationship.

Micro results were robust both sequentially and annually, driven by particular strength in corporate credit. Tightening credit spreads and increased secondary trading activity resulted in higher client revenues. We saw increased velocity over the balance sheet in the quarter Commodities had strong broad base results with solid trading performance and lower structured revenues in Q1 '18.

Wealth Management reported quarterly revenues of $4.4 billion and pre-tax profit at $1.2 billion. Despite lower starting asset levels, the business produced the PBT margin of 27.1% demonstrating resilience despite large market drawdowns in the fourth quarter.

Total client assets ended the quarter at $2.5 trillion, an 8% increase versus the prior quarter, reflecting positive asset flows to the firm and the rebound in asset prices. Net fee-based asset flows were $15 billion, and additionally, we continue to see improvement in the productivity of our advisers.

Transactional revenues were $817 million. Movements in deferred compensation to investments were significantly impacted fourth quarter revenues, partly reversed in the first quarter. Excluding the impact of the gains on the plans, transactional revenues were down slightly quarter-over-quarter. Revenues were impacted by client's defensive posture and the relatively slow syndicate calendar.

In particular, we witnessed a rotation out of equities into short-term fixed income products. Asset management revenues were $2.4 billion. The 8% decline from the prior quarter was primarily driven by last quarter's lower ending asset levels. Total bank lending ended the quarter at $71.5 billion. While funded balances declined slightly quarter-over-quarter, driven by a handful of large pay downs in the tailored lending book and a modest decline and security-based lending, commitments did rise. The rise in commitments and solid mortgage growth over the quarter are encouraging and we continue to expect mid single-digit percentage loan balance growth for the full year.

Net interest income growth of 3% to $1.1 billion was primarily driven by the benefit of the December rate increase and the corresponding impact on our investment portfolio yields. Additionally, we benefited from the increased level of deposits at the beginning of the quarter, which was partially offset by higher prepayments fees.

Strong non-compensation expense discipline and the benefit of the retention note roll-off more than offset the effect of lower asset values, resulting in a margin of 27.1%. As demonstrated during the quarter, we have leveraged to protect the margin, while still investing for growth.

Investment Management produced very strong results. Revenues of $804 million were up 18% sequentially and were the highest for the segment in over five years. This was driven by $191 million of investment revenues.

Investment strength was broad based across products. The sequential increase was supported by the rebound in global markets and the absence of last quarter's impairment charge. As noted historically, this line item has the potential to be lumpy.

Total AUM of $480 billion was up 4% versus the prior quarter with long-term AUM of $321 billion, increasing 7%. The increase in long-term AUM was primarily driven by strong market related growth.

Asset management fees of $617 million were down 2% sequentially. The higher management fees on the back of improved average AUM over the quarter were offset by lower performance fees. As we have mentioned before, as a result of the revenue recognition accounting rule implemented in 2018, a significant amount of any year's performance fees will be recognized in the fourth quarter with a small amount being recognized in this first quarter. Total expenses increased by 3% quarter-over-quarter, driven by higher carry compensation, which offset a decline in non-comp expenses.

Turning to the balance sheet, total spot assets of $876 billion increased 3%, driven by client activity primarily in equity sales and trading and ISG lending. The higher balance sheet drove an increase in RWA is resulting in a decrease of our Common Equity Tier 1 ratio to 16.5% from 16.9%. During the quarter we repurchased approximately $1.2 billion of common stock or approximately 28 million shares at $42, and our Board declared a $0.30 dividend per share.

Our tax rate in the first quarter was 19.9 executing $101 million of intermittent net discrete tax benefits. We continue to expect our full year tax rate will be similar to the 2018 tax rate, excluding intermittent items. The vast majority of our share based award conversions took place in the first quarter.

Markets in the second quarter had been constructive. Pipelines are healthy in Investment Banking, and higher asset levels will support fee-based revenues in our Wealth Management business. We are keenly aware that open and functioning markets and economic stability are instrumental in supporting confidence and activity levels moving forward.

With that, we will now open the line for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Brennan Hawken of UBS. Your line is open.

Brennan Hawken

First question is on non-comp expense. We saw a pullback nicely here in the quarter. Can you help us think about how we should think about the amount of flex that you haven't outlined to potentially offset environmental pressure? If we see that flaring up again that, maybe a bit of a context around fixed versus variable?

Jonathan Pruzan

Sure. I'll take a shot. And as you said, we thought -- we had a nice quarter on the non-comp side. We continue to make investments. You'll see that in the IP and fee line in terms of technology. And where we've been able to tighten really has been in around marketing and business development and professional services. We did see an uptick in Brexit expenses, but we were effectively able to self-fund those. And again, we continue to see opportunities and levers if needed, in those sort of more controllable, if you will, line items like marketing and business development and professional services. We did also see, as you would expect, year-over-year, a decline in some of the execution related expenses given the decline in revenues, but again, a nice quarter for us on the expense side, 71% efficiency ratio, well below our target of 73.

Brennan Hawken

And then switching gears to Solium. James, I know you've referenced it and provided some high level context around how you're thinking about it strategically. But maybe -- could you help us think about how you see this fitting in a bit more granularity in the different businesses? My guess is it's primarily a wealth management, customer acquisition tool, potentially. But I would think that it might play in a bit on the banking side too, particularly in developing relationships with private. It comes along with fictional cash. So there seem to be a few different levers here that can help. Can you help us try to think about how you see those playing out after the deal closes and you onboard? What type of a timeframe should we be thinking about before we can start to see some of these impacts? Is there a conversion that needs to happen? How -- could you help us a little with backing impact on around that? Thanks.

James Gorman

Well, I think, you have answered most Brennan. Thank you. Strategically this is pretty obvious to me. There are basically three ways to -- three major channels for reaching Wealth Management clients. One is through some sort of advisory platform. Other is financial planners, advisors, et cetera. And we are -- I would say, we're kind of A-plus in that zone. The second is through the pure direct that's not been a core focus about. And there are some very big established players there. And the third is through the workplace and through increasingly what's called financial wellness whether it's financial planning, education and obviously conversion, stock plans -- stock option plans, 401(k)s, IRAs and the like. And that's what Solium really does. It's like the -- I don't know if you have observed the -- I was growing up in Australia, I used to watching these ads on TV about picture time where he said he liked the razor so much and bought the company. So he went and bought the company. Well, we liked Solium so much when we outsourced to them and we went and bought the company. And you're right. This isn't just getting access to 2.5 million prospective clients by the way when their assets convert over from the stock plans they convert into -- they will be converting into Morgan Stanley accounts. So that's a very part of the initiative.

The other part, as you pointed out, treasury functions, pension management, other forms of cash management, which we go through the Investment Management group. The private wealth and financial advisory teams will continue to focus on C-Suite and senior executives. The IPO on banking teams, where it's a small company potentially going public will come in. And obviously, offer those services. So there are four, five ways into what is about, I think, it's about 3,000 small companies they have on their platform. Ours tend to be bigger. We have about 300. And I just think it's a very exciting relatively inexpensive, frankly, against the size of Morgan Stanley. It's very inexpensive in terms of absolute deal size. It obviously wasn't cheap on a notable basis. But I see it is buying the technology and giving its access to a new channel with notable verticals into it.

Jonathan Pruzan

And then just briefly on timing, we would expect the deal will close shortly. There is clearly some conversion and technology builds. And combining that will do probably as a 12 to 18 month type of conversion period. And then what expect to see the synergies that James talked about thereafter. So we're very excited about it.

Operator

Thank you. Our next question is from the line of Mike Mayo of Wells Fargo. Your line is now open.

Mike Mayo

Jon, you used a lot of additives saying the pipelines healthy, improved, and just one, if you can put some numbers on the backlog. And especially the IPO backlog, I mean, there's a lot of chatter in the market about the number of IPOs upcoming. And I guess you get more than your fair share in tech IPOs. Can you quantify kind of what you're saying? What's in the pipeline? What's maybe little after the pipeline? What other period you compared this to?

Jonathan Pruzan

I will try to give you a little bit more context. Although I think the additives were our attempt to give you that context. First and foremost, we're number one in global equity and IPOs. That's not just a tech comment, that's a broad base franchise that we're very confident in. And as you know, given the sort of December hangover, the earnings season as well as the government shutdown, we did feel a significant portion of the IPO calendar gets pushed out, not canceled, but pushed out. We also then saw over the course of the quarter, increasing build up of the pipeline in the IPO product. So we feel very confident about our backlog, the health of the backlog and the size of the backlog. And right now, we do have a pretty constructive market in terms of equity vol and just overall evaluation. So assuming those markets stay opening and functioning, we feel very good about the ECM product and the ECM opportunity. This quarter, we had strength, really we sort of pivoted to blocks and secondary's and converts. So a smaller number than general, but still a strong number relative to what the opportunity set was. And as I described, backlogs are healthy, and it's really going to depend on the markets openness and willingness to bring these deals from the pipeline into the market.

Mike Mayo

And then a separate question. Just on the Wealth Management margin, I mean, that's just going from 24% to 27%. It seems like there could be some one-time items or noise in that. I guess what's your outlook for that? And James, I know, I always ask this, but with the rebound the asset values, it seems like you sandbag with your pre-tax margin of 26%, 28%, now, 27% in the middle of that. But, why not raise that target? Where do you think that will be ahead? And was there any noise in this quarter?

James Gorman

Well, Mike, I think we're going to have this ongoing discussion probably for another decade. Let's see. I don't know that a midpoint result is a sandbag, but anyway, I will take that offline. Listen, the first quarter had -- there weren't any peculiar one-off things, and Jon will correct me if I'm wrong about that, but they weren't any. The business has scale. I mean, the bottom line, the business has scale of point margin on $4.4 billion of revenues, $44 million. If you manage the expenses tightly, which the team did, they had decent activity in the secondary stuff, not great, but decent. They manage it tightly. You can move the needle quickly. And we -- there is no -- I've been saying this for many, many years. This is the ultimate scale business. If you put down the railway tracks in the right way, it rolls. Every now and then, there's a little saying on the tracks which creates some friction, and every now and then you're going downhill, it goes a little faster. And that's -- the important thing is, the assets were priced at a very low level on December 31, relatively low level, and the business delivered notwithstanding. Now, as you know, we had two of the three months included the benefit from the compensation deal running off, which ran off at the end of January. By the way, I haven't noticed any attrition resulting from that, which didn't expect, we didn't get. And we get three months of that coming into the second quarter. Assets priced more favorably in the second quarter. And we'll see how we do with expenses. But there's no magic to this. So it's pretty consistent. For a really bad quarter is 24.5% margin. We used to dream of having margins, which had 15% on them. So I'll take that as really bad quarter, and if a really good quarter surprises, the upside of the range. But we talked about the 26 to 28. So be it could happen.

Jonathan Pruzan

I would just mention that the idiosyncratic events were really around the fourth quarter, not around the first quarter. So I think the fourth quarter was depressed by some of the things that we did. And the first quarter was just shows the benefit of scale and our ability to pull levers and sort of manage between growth and investment.

Operator

Our next question comes from the line of Glenn Schorr of Evercore ISI. Your line is open.

Glenn Schorr

Question on just what to expect, even though you can't expect too much, on fixed seasonality in the first quarter, I'm sure is as strong as ever been, you put a very good result. I just want to make sure we get our expectations in the right place regarding seasonality. And then on the flip side of that, in equity trading, I think public volumes are overall light, but my question is, what are you seeing on reengagement of PB client balances on margin?

Jonathan Pruzan

Yes. I'll try to take that. On the FID side, you are absolutely correct, first quarter has the seasonal strength to it. I would say -- certainly, four out of the last five years, the first quarter is the strongest quarter of the year. And we'll have to see how it plays out. But that's the general historical seasonality to that business. We had a nice quarter. As I mentioned in the call, a nice rebound from a disappointing fourth quarter and the business. We have a lot of confidence in that business and continue to do well. On the equity side, we came into the quarter with activity levels low and average balances or balances quite low given the volatility in the December timeframe. As I mentioned, we did see PB balances grow steadily throughout the quarter. I would say they're still below the levels that we saw sort of in the first nine months of 2018. But they have steadily increased and continued to increase in this quarter. But it's interesting that the sentiment in that speaks, although the markets have rebounded, I would say that the participants are still quite cautious. But balances are clearly rebounding, but just not back to the level as we saw in a very prefer -- very strong first nine months of last year.

Glenn Schorr

One quick one, Jon. There's a lot of news flow related to lift and Morgan Stanley's potential participation in helping original investors hedge. I know you can't talk about a specific issue. What I want to ask is what's normal course of business? How does that -- what takes place behind the scenes that we don't see? And then if you could comment anything on that particular shift, that'd be great.

Jonathan Pruzan

Yes, but, I mean, we can't, obviously, we can't comment on that Glenn. But we are in the market making business on behalf of clients. I mean, that's what you do in this industry. And, there's no, from our perspective, there's absolutely nothing done wrong in dealing with those particular shifts, but that's for another day.

Operator

Thank you. Our next question comes from the line of Jim Mitchell of Buckingham Research. Your line is open.

Jim Mitchell

Sort of fit into capital, I mean, now that you've kind of taken a look at the new, the fast scenarios, how are you feeling relative to last year with respect to the CCAR submission? How should we think about that?

Jonathan Pruzan

Yes, as you know, we just submitted our plan here at the beginning of the month. So we had no particular color or context about the results. We'll get those at the end of June. I think you saw in January what we said is, and we continue to say we have sufficient capital, and we would like to return 100% of our earnings going forward. The tests, as you saw, certainly some of the metrics in the tests, and the macro factors were less severe than they were last year. And we started the year with roughly the same balance sheet and more capital. So we were in a stronger position. But we'll have to see what the results come out in January. But I would continue to say that we believe we are capital sufficient and we would like to continue to return our earnings to our shareholders.

Jim Mitchell

Okay. So no change for the 100%? And maybe just a follow up on the differed comp, can you help us just to understand if there was material P&L

impact? I would assume there were some offset in comp, but if you could just sort of help with that.

Jonathan Pruzan

Sure. And I would say you sum it up properly, which is the PBT impact both in terms of dollars and margin is actually quite minimal. You do see some variances and revenues in comp where you will see the most differences. But overall, from a PBT standpoint, this quarter there was virtually no impact to the bottom line. On a margin basis, the vast, vast majority of the time, the margin will be diluted by movements in PBT because we're generally pulling out very low margin dollars from both revenue -- from the PBT line so revenue expense come out at a low margin basis. So it's dilutive to the margin. But again, from a bottom line perspective, very limited impact this quarter.

Operator

Thank you. Our next question is from the line of Steven Chubak of Wolfe Research. Your line is now open.

Steven Chubak

So wanted to starts off with a question on April tax seasonality and the NII outlook. So deposits took a decent lie down in the quarter as clients reengage at the pretty consistent industry trend. I'm just curious if tax seasonality is expected to be a little bit more pronounced in 2Q following the changes in the tax law. And maybe just separately was encouraged to hear that the reaffirmation of the loan growth target of mid single-digit year-over-year. I'm just wondering the context of finding yield curve, if we should still -- are you still comfortable with the original guidance of NII growth being up mid single-digit as well?

Jonathan Pruzan

I will go backwards. Yes on both guidance for loan growth and guidance for NII. The loan balances this quarter were down slightly, really being driven by paydowns. We had nice production across the platform. Mortgage as you saw was up. We were impacted by the paydowns in both SBL as well as in tailored. We've had a very nice start to the second quarter. The first two weeks have been very active. Particularly in the SBL product, we surmise that is the result of the tax season this quarter and whether or not we end up in a higher or lower level relative to normal seasonality. But we have clearly seen some very strong production and balances in the SBL product here in the first two weeks. So again, we feel very good about the mid single-digit guidance on loan growth and NII, even though, clearly, expectations around rates and the forward curve are different than when we started the beginning of the year.

Steven Chubak

And just one follow-up for me on some of the fee income drivers in the quarter. And having a look at what your peers have reported, clearly the firm-wide results were quite impressive. I was just wondering if you could provide any inside into how much of that fee strength that we saw in Investment Management, transactional activity in Wealth and other sales and trading is sustainable. And clearly a strong result, I just want to gauge how much of that strength is recurring and what we should be comfortable run rating in our models?

Jonathan Pruzan

The three components on the MSIM, again the fee-based revenue I mentioned, the performance fees and then investments can be lumpy. But investment management should be tracking AUM and AUM growth. And we -- as you saw what happened in those line items, the second one on other sales and trading you mentioned or just other?

James Gorman

We lost him.

Jonathan Pruzan

Again, fees in general, there is -- we feel very good about the results. There wasn't anything particularly unique in the results outside of the Investment Management comments I made about investments being lumpy and the performance fees. We feel very good about the performance. The DCP transactional revenues is the one item. As we called out DCP did impact transactional revenues to the positive. Had it not been further? The reversal of DCP transactional revenues would continue to be soft. A lot of that was the calendar and sort of the defense in posture of our retail clients. So we did see the increase in deposits coming in the December timeframe. We saw that bleed out overtime in the first quarter. And a lot of that went to short-term fixed income product, which has a lower commission schedule. So again, transactional revenues are soft. And we'll have to see how sentiment changes or shifts as the year progresses. But that's one place that I would highlight.

Operator

Our next question is from the line of Christian Bolu of Autonomous. Your line is open.

Christian Bolu

So maybe I have a question on expenses and sustainability. Just trying to understand how sustainable the non-comp numbers and wealth management was? So I think 739 for the quarter, which I believe is the lowest since Smith Barney was a quiet, so obviously, very, very strong discipline there. What is that the new normal? Should we just run rate that forward in our models? Or how should we think about the go forward here?

Jonathan Pruzan

Again, it was a nice non-comp quarter. We do have -- in terms of the non-comp, there is obviously some seasonality related to the expenses and FICO and what not. But we've shown extremely good discipline in this business. We made significant technology investments over the course of the last year or two. We'll continue to balance investment and growth in that area. But as James mentioned, this is really a scale business and we have the ability to really manage that expense base tightly. And you're seeing that. So a year-over-year, as you mentioned, it's down 3%, and there wasn't anything chunky or interesting in that other than real discipline and focus.

James Gorman

I would just add two things, Christian. One, more narrowly, just, there will be some integration costs for the Solium. I think the deal is closing in May. Am I right Jon?

Jonathan Pruzan

Sure.

James Gorman

There'll be some integration costs with that, some technology investments and so on. Again, I'm not, that's obviously huge given just the size of the business, but that may make down some numbers around a little bit over the next couple of quarters. I don't know exactly, but my guess is a little bit. But more broadly, we came out of last summer and set as the management committee. I think, in September, and just came to a view that the revenue outlook for 2019 did not appear at that point that it was likely to exceed 2018. I think we had an incredible start in '18. We had the two best quarters in our history. And the third quarter was very close to that. We've never broken $10 billion revenue, and we had two in a row and then $9.8 million.

And we were right frankly. The fourth quarter turned out to be a disappointing from a revenue perspective. We could see the decline coming. We didn't know how that turnaround would happen. That shutdown appeared imminent and then actually happened. The trade wars were hardening up. It was taking down sentiments. So there was a lot of negativity building through the end of the year. And around September, October, we started taking a hard look at expenses, because you can't change the expenses once you're in the middle of the quarter. It just -- it doesn't work. I mean, there's very little pure discretionary stuff you can just stop. You can stop people traveling around -- going to client stuffs and some, that'll save you a few million bucks. But if you are going to make a real move, you've got to be quite strategic about it. And the teams that are focusing on this September, October, November, even some of that didn't come through till -- where it had started the quarter. It didn't start day one. But there's a whole machine around expense management here, which we've had for a few years that's started with project streamline. And we kind of re-upped that machine again, turned the engines back on and got them going, and they did a great job. So my view is we keep this discipline. I'm not -- the world remains uncertain. I'd love to think the next three quarters are better than the last three quarters of last year. But I'm a betting man, I'm not sure I make that bet right now. The world is uncertain. And until we see more clarity, we're going to be very disciplined. There's not a panic. We -- it's just good smart expense management. 3% decline is not a massive move, but as you saw on the margins on some of these businesses, that really helped. So that's the general philosophy until we get greater visibility and confidence of the outlook is at up outlook year-over-year. We're going to manage entirely.

Christian Bolu

Maybe just switching a bit here, back to I guess, Solium. On more broadly, just broader wealth management of digital wealth management strategy, is there any thought here of building a sort of Merrill Edge-style platform to better serve, as you said, the younger demographic and maybe customers more, more digitally which is one part of the question. And maybe the second part of the Solium question is, are there any revenue dis-synergies we should be aware of? I know that I believe some of your competitors are served by Solium. So I'm not sure if those deals carry over when you close the deal in May?

Jonathan Pruzan

A couple of things, and I'll take a first crack at this. As you know, we've been significantly investing in the digital platforms, both from a client perspective, but also an FA and an operating and an efficiency perspective.

And one of the real exciting things about the Solium deal is our ability to use those digital investments more broadly with this younger demographic and this sort of emerging investor, demographic, as people build wealth in the workplace. So we spent significant resources building out, our virtual advisor as well as our access investing, which is a robo platform. So we'll be able to provide digital advice and digital applications to these younger, less affluent customers as they build wealth and then hopefully channel them into the broader FA traditional model that we have. So that's one of the exciting elements of it. And then, in terms of the second part of your question on just to costs or the programs, this is a very exciting space. Employers are looking for full service solutions for their employees, the combination of Solium and their sort of state-of-the-art technology combined with our platform, both on the digital side and the full service, and our ability to deal with things like 401(k) pension benefits, as well as our goals-based planning, our digital platform, and then lastly, financial education and wellness. This is a real interesting, comprehensive product offering for employers. And we would expect the growth to accelerate as we combine these platforms over the next couple, as I said, 12 to 18 months.

James Gorman

I'd just add from a strategic perspective, I mean, it's always fun to talk about new stuff. And a lot of the media attention and sometimes investor attention gets very focused on what's new and sexy and different. And Solium kind of checks all of those boxes. But it's small. I mean, let's be realistic here. I mean, it's a -- I think it's a very interesting strategic play that will play out over a number of years and puts us squarely in the space we want to be in, but at a small. We have a $17 billion revenue business in Wealth Management that has nothing to do with Solium right now. That is the main game, driving the margins in that business, shifting the assets on to new types of platforms, building out the banks and lending products. They are the massive moves that are going to take place over the next several years. I think the wealth management for our Asia platform is very important as that continues to grow. So I just -- I don't want to dampen the enthusiasm. I just want to put in context that to win in workplace and losing the advisory would not be a good answer. Our job is to win in the advisory, crush that and add these other verticals as opportunities permit and opportunity opened and we took it.

Operator

Our next question comes from the line of Devin Ryan of JMP Securities. Your line is open.

Devin Ryan

Since the last quarter you guys talked quite a bit about M&A opportunities. And Solium was announced soon after that, and maybe some foreshadowing there. I'm just curious if you're still actively looking for opportunistic M&A here whether it would be DWM or asset management? And last quarter, you'd also mentioned potentially pursuing some new client segments. I'm just trying to think about what some of those segments could be? Are there any specific areas that are maybe more attractive today?

James Gorman

We have a very high bar on M&A. It's how they got to bring scale to an existing business. It's got to be an area of where we have clay competencies or it's got to be something which fills out is complementary to our platform might and give us scale, but fills out and broadens our platform. I think where you saw, it Mesa West is a good example of that. What you saw with Solium is a good example of that. What you saw at Smith Barney was a good example of pure scale play. So yes, we're looking opportunities, but we're very, I don't know if conservative is the word, but we're definitely not compulsively trying to buy stuff. That's not where I hit is that. On the other hand, as we see things that we think is smart and can fit on the platform and culturally good fit, we'll go for it. Jon do you want to add to that?

Jonathan Pruzan

No. I think your focus is right in terms of both Wealth and IM. Sort of more of the fee-based type businesses, less balance sheet intensive, and that's really what the focus has been. And that's what the two deals we saw over the last few years were.

Devin Ryan

So just a follow-up here on Wealth Management. I know there are a number of growth initiatives there today and a number that are kind of beyond adding financial advisors. But you've actually had a slight increase in advisor headcount over the past three quarters. I know it's small. But can you maybe talk about the backdrop for financial advisor recruiting, if there's been any change in kind of appetite there or maybe attractiveness of recruiting, especially, with some of the expense rolling off from the Smith Barney retention and other employee loans amortizing?

Jonathan Pruzan

Sure. I mean, I think, first and foremost, I would just say one of this has been less movement of people both in and out and that's good for stability of the platform, the ability to build relationships and continue to invest, so that's a positive. You did mention, I think, recruiting, last year was quite slow for us as we focused on digital and adoption and things of that nature. I think we have a very attractive platform. So we're seeing interest in joining our platforms. So there could be some marginal pickup in that area. But that's not really going to be a growth engine for us. And I would say one thing that I call that in the script is, the numbers will go up and down in terms of headcount. I think productivity is critically important. And you've seen us to increase the productivity of the average advisor, quite consistently over the timeframe. So we're happy with that. But just less movement of people, broadly speaking is better. James mentioned, we saw the roll-off of the retention notes. We did actually see an uptick. But again, these are not big numbers in uptick and retirements. But they were sort of well planned for. As you know, most advisors now work in teams, and we've gotten a very good program in place to help them transition their book of business to a younger member of their team and continue to retain those assets, even though people are leaving the business or retiring. So we feel very good about the stability of where we are right now.

Operator

Thank you. Our next question is from the line of Andrew Lim of Societe Generale. Your line is open.

Andrew Lim

So I just had a follow on from the question asked earlier, perhaps if you give some color on the other revenues within the Institutional Securities, you've referenced smart market gains associated with corporate lending activity. It's just due to spread tightening. How feasible is it to expect more that's going forward? Or is it just a reversal of some spread lining that we still in the 4Q? And then the second question is on CLOs and average lending. It's a question that asked one of your competitors. But I was wondering if you've seen any changes in Japanese buyers for CLOs, U.S. CLOs, especially the highly rated stuff regarding changes to Japanese regulations, a few weeks ago, which have required CLO issuers to have 5% risk attention?

Jonathan Pruzan

Sure. And again, I think the -- I'll try and take those questions separately. The other revenues, there's a lot of things that are moving around. And those three lines, other revenues, other sales and trading, investments, I think you have to look at the broadly in context and then we try to call out what we think the biggest drivers of the changes are. And other sales and trading, this quarter, you see some of the impact of the deferred comps that we talked about. We also saw that's where we have a lot of our hedging activity, and obviously, spreads tighten, so there were losses there on the flip side and the other revenue line. We have the mark-to-market on those same positions. And so those just generally had been offsetting each other. So again, there's a lot of moving parts in those businesses, and we've tried to -- excuse me, in those line items. And we've tried to call out the main differences. On the CLOs, as you mentioned, the risk retention rules are new. We haven't seen a big change in behavior issuance in the first quarter. It was down slightly in terms of CLOs versus where they were last quarter last year, but it was certainly healthy. Our expectation is given the pricing dynamic more than the risk retention rules. We're given the pricing dynamic. We'd expect CLO issuance to decline year-over-year, but it's been pretty healthy in the first quarter, and it's supporting a pretty healthy leverage loan market.

Operator

Thank you. Our next question comes from the line of Matt O'Connor of Deutsche Bank. Your line is open.

Matt O'Connor

Good trends in the compensation down 5% year-over-year. I guess I would have thought there might have been even more flexibility just given some of the roll-off of the retention and then also some of the pull-forward that you did in 4Q. Obviously, we're just looking at one quarter here, and you're optimistic on the revenue outlook. But just talk about some of those dynamics and the flexibility you have, specifically in comp, and layer the retention and the roll-off -- sorry, and the front ending of some compensation in 4Q?

Jonathan Pruzan

I'll try to take that in the two components. On the ISG side, you saw the comp ratios sort of consistent with last year's first quarter. Revenues were down, so obviously comp was impacted by that. And we continue to believe or continue to manage that tightly. We want to be competitive in compensation and retain and attract the best people and we think we have the flexibility to do that within the context of the of the comp ratio in that business. On the Wealth side, if you look at year-over-year, there was very little change in the comp ratio. You're right, the retention did roll off. And as I mentioned also, the DCP or the deferred comp plan is just the movement that we've called out in the transactional revenues. While it's dilutive to the PBT margin, it's actually accretive to the comp. Its revenue margin, because we're pulling out high comp revenue dollars to the revenues when we backed that out. So the comp ratio would have been actually down, had it not been down, had it not been for the movements in the DCP. We did roll off those notes in the first quarter. But if again, comparing year-over-year, we've been investing in the business, and in terms of both people and comp levels. But again, if you were to backup the DCP, you'd see a more start decline.

Operator

Our next question comes from the line of Al Alevizakos of HSBC. Your line is open.

Alevizos Alevizakos

It's a strategic question regarding your technology investment, especially given that you've already locked into acquisitions like Solium Capital. I remember that you previously disclosed the $4 billion budget for technology. And I was wondering how do you think about it for 2018 given that the revenue backdrop is slightly lower. At the same time, you've already done an acquisition for close of $1 billion. So will that remain the same go higher, go lower? And how much did you spend for changing the bank? Thank you.

James Gorman

I'm not sure I want to get into great detail about the technology budget. I wouldn't expect it to change materially year-over-year, probably the mix is changing a little bit. We're moving into some of the more innovative areas of technology, and we've made a major push with our cyber defense. We have -- doing a lot of work around machine learning at the moment, Big data management, so all the stuff that you would expect us to be doing. We're doing. I think we spent a lot of money getting regulatory compliance in the last five, eight years from a technology perspective. And once you're complained, you're complained, you don't have to keep spending that. So and we made a lot of changes to the Wealth Management platform, the user interface from the various tools the advisors have at their workplace. And once you've done that, you don't have to keep doing it at the same pace. So I think, if I was sitting in front of one of your models, I would probably be modeling more or less flat. And within that there's a change in mix going on. We're -- it's easy just to throw back at some money at technology. It's something -- because people are talking about it so much. It's very fashionable to do that. And we're also running a business. So I think we want to find the right balance.

Alevizos Alevizakos

And as a follow-up on something you said just before, you mentioned that you would only be considering to do acquisitions or investments that they would actually add scale to your business. And clearly, Investment

Management, I think is one of the places where you are subscale compared to some of your competitors. And there was a rumor on Bloomberg, last month that you may be looking for a large German wealth asset manager? Would that make any sense from a strategic perspective? Thank you.

James Gorman

Well, one, I don't comment on rumors. Two, I didn't even see the article. Three, I think the probability of us investing in a European wealth management given that we sold our European wealth management business a few years ago is somewhere between zero and none. But apart from that, I don’t want to comment on the rumor. It's not just scale. We look at scale as clearly to me, the easiest acquisition is where you building sale economics. But we look at products and capabilities fill in. That's just as important as if we're going to grow, we can't just rely upon getting deep from what we're doing. We've also got to expand the range of things we're doing. I think that's exactly. Jon may have a comment on this. That's exactly what we did in the asset management space. I think what Dan Simkowitz and his team is focused on Jon.

Jonathan Pruzan

Yes. And again, I would look at the asset management space. It's not necessarily in totality. If you look at the different products that were in, the equity products, the fixed income products, the alternative products, there are certain businesses that we feel that we're very effective and are at scale. And we'd like to continue to add little product or product capabilities, Mesa West in the Equity product in terms of commercial real estate, excuse me, the debt products in commercial real estate was one area that we like to fill in. I would say, in fixed income, we would probably like to see more scale in that business. We continue to make key hires and invest for public and private credit, and will continue to do that. We try to build out that business. But I would tell you the other businesses within asset management when we do that scale.