Good morning, this is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we will refer to our earnings release, financial supplement, and strategic deck, 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. In a moment, I'm going to take you through our outlook and plan for 2017, but before doing so, let me briefly touch on the fourth quarter.

It's fair to say the year finished a lot better than it began. After a difficult first quarter, Morgan Stanley delivered three consecutive quarters with revenues at approximately $9 billion, each with an ROE north of 8%. While our fourth quarter contained some positive and negative adjustments, which Jon will touch on shortly, our operating performance was consistent with what you've seen from us since the beginning of the second quarter.

There is certainly more reason to be optimistic as we enter 2017 than there was at the beginning of 2016. The surge in consumer confidence after the U.S. election, the recent and anticipated Fed rate hikes, the strengthening U.S. economy and potential corporate tax reform are positives for our business. Notwithstanding these potential positives, we intend to remain extremely disciplined. This is especially true with regard to expense management.

Before transitioning to our annual deck, let me say a few words about Morgan Stanley's management team. Many members of the firm's operating and management committees have spent much of their careers at Morgan Stanley, with many having dedicated more than 20 years to this firm. The stability of the team combined with the depth of experience and operating discipline honed in the difficult years during and after the financial crisis is an undeniable asset in the years ahead. In the next minutes, you will hear us delve into numbers and goals, but it is the culture and people of this firm that will get us to where we want to be.

Now with that, please turn to the slides that you can find on the investors relations website, after which Jon will take you through the quarter in detail. Following our prepared remarks, we will both take your questions.

Slide 3 outlines the key strategic objectives for 2017 that we reviewed on this call last year. In each instance, we feel we're on track. We are on course to deliver $1 billion of expense reductions to our cost base in 2017. On relatively flat annual revenues in '16, we reduced non-compensation expenses significantly and continued to exercise discipline on compensation.

At the end of 2015, we undertook a meaningful restructuring of our fixed income business in an effort to better align its capital and resources with the market opportunity. Our goal is to maintain our historical revenue footprint of $1 billion-plus per quarter but with significantly fewer resources. In 2016, we exceeded this average quarterly target with full-year revenues at $5.1 billion and delivered three consecutive quarters above that $1 billion mark.

In wealth management, the full year's pre-tax margin was 22%, and we expect to hit the 23 to 25% range by year-end '17. We also achieved record pre-tax earnings of $3.4 billion in the face of a number of macro headwinds, including sustained low interest rates and muted retail investor engagement.

In 2016, we received a conditional non-objection to our CCAR capital plan, which included increasing our buybacks by 40% to $3.5 billion and our quarterly dividend from $0.15 per share to $0.20 per share. We re-submitted our revised capital plan in December and look forward to hearing back from the Federal Reserve on our results.

Finally, 2016's ROE demonstrated progress towards our 9% to 11% goal for 2017.

Turning to Slide 4, you can see that our ROE obviously was 8%. Assuming normal market conditions prevail, as they did over the last three quarters when our ROE averaged 8.5%, we remain on target for our 9% to 11% goal for 2017.

As outlined on Slide 5, there are a number of opportunities for us to continue improving our operating performance. I'm going to address each of these five opportunities in turn.

On Slide 6, turning to that now, you can see that although our total revenues were relatively flat in 2016, we grew our pre-tax profit excluding DVA by nearly $1 billion. As a management team, we have focused on controlling what we can. Optimizing our expense base has been a key tenet of this approach and is a measure of our operating leverage.

Project Streamline's 200 expense initiatives have yielded meaningful results to date. Notable successes include leveraging our centers of excellence, reducing headcount in call locations, and closing redundant data centers. Additionally, the broad-based nature of the initiatives has energized a more expense-focused culture across the whole firm. This should help us realize the remaining savings potential in 2017 and maintain operating leverage in a rising revenue environment.

On the compensation side, our ISC expense compensation ratio met our target to be at or below 37%. Savings were driven by the fixed income restructuring and our continued discipline. In wealth management, we demonstrated progress towards our goal of achieving a compensation ratio of 56% or lower. We intend to maintain that discipline consistent with the goals mentioned while recognizing the competitive dynamics in this business. The combination of these efforts resulted in a meaningful improvement in our expense efficiency ratio from 77.2% in 2015, excluding DBA, to below 75% in 2016.

As illustrated on Slide 7, in advisory we've grown our share and completed M&A and retained our ranking in a market that exhibited resilience in 2016. The year was more challenging for the equity underwriting market as volatility and the idiosyncratic risk events kept many would-be issuers on the sidelines. On a diminished industry fee base, we maintained our market share. Looking to 2017, we are optimistic and see upside from a normalization of volumes.

Slide 8 outlines key strategic priorities within our sales and trading business. In the fall of 2015, we unified our sales and trading franchise under one leadership team, and 2016 was a year of integration. We're now managing the divisions holistically, aiming to optimize resources, talent, capital and technology. Our equities division has consistently been number one among global peers. We continue to refine our strategy with the goal of maintaining that leadership across regions, including as a top franchise among global firms in Europe and profitably growing wallet share. This includes deepening our relationships in prime brokerage as well as focusing on providing content, capital, and execution services to clients in flow trading.

In addition, we remain committed to investing our Asia franchise as we expect a positive long-term secular trend of increasing activity and improving liquidity in the region. While the equity sales and trading landscape remains competitive, the shifting dynamics may benefit the leading players.

The restructure in fixed income made a year ago was consistent with our objective to have a credible and critically sized business that was relevant to our clients and supported adjacencies that exist with our ISG and wealth management franchises. Turning to Slide 9, as you can see on one measure of success, we set an internal target which was externally communicated to generate average revenue on a quarterly basis of at least $1 billion with reduced resources. As properly discussed, we met this goal and we want to ensure it plays out through 2017 and beyond. The results are encouraging. Importantly, in a more favorable environment characterized by rising rates, more active macro markets, and a vibrant corporate activity, we expect to participate in a growing wallet but with a lower cost base.

So to finish our discussion on sales and trading, I would like to point to the very strong performance in equities. For the third consecutive year, we increased wallet share to 20%, maintaining revenues in excess of $8 billion in a shrinking market.

Let's turn to Slide 10. In 2008, we embarked on a multi-year transformation of the wealth management business. The Smith Barney acquisition gave us an undeniable scale benefit, particularly when combined with ongoing cost management. At the same time, we built our bank infrastructure and have seen material growth in annuitized revenues. As you can see, this led to a 22% compound growth rate in our pre-tax earnings since 2010 against a 4% growth in revenues.

However, as shown on Slide 11, what has been missing from this picture is retail investor engagement and any material benefit from rising rates. The Fed's actions in December and expected rate increased in 2017 and 2018 combined with a more positive investor sentiment lead us to believe there is real upside to the business over the next several years. Realizing that upside will require us to maintain expense discipline as we grow revenues.

In addition, two years from now the 10-year retention notes that were put in place with our Smith Barney acquisition will expire. Further, our U.S. bank subsidiaries continue to provide us with organic revenue opportunities, not only because of the expected rate rise but also because of the continuation of our deposit deployment strategy. We intend to discuss this in more detail in the year ahead.

Before moving ahead, let me spend a few moments on Slide 12 to discuss the digital landscape. Much has been said about the digital shift in financial services, and there is no question that technology is changing some areas in the wealth management arena. It is an important strategic component for us to realize the business' growth potential. Our strategies' primary goals are threefold: first, we want to modernize our branch system using digital to allow our financial advisors and branch operations to be more efficient serving current clients. Second, we want to provide our financial advisors with the necessary tools and analytics to deliver high-quality advice and engage with clients through a variety of channels. Finally and over time, we want digital capabilities to service individuals who are more focused on a full digital relationship. As part of achieving these goals, in 2016 alone we negotiated over 10 alliances with industry-leading digital providers. You'll hear a lot more about this throughout the year.

Slide 13 then summarizes the growth opportunities in wealth management. Together with an improving U.S. economy, moderating revenue headwinds, execution of both our revenue and expense initiatives as well as structural savings from the Smith Barney transaction, all of these serve as a powerful combination to achieve our margin targets in 2017 and beyond.

I'd now like to spend a few moments addressing investment management. Slide 14 outlines the business. As a reminder, the business has approximately $400 billion in assets under management with world-class expertise in a number of segments, including our real assets, portfolio solutions, liquidity, and global equity businesses. In the fall of 2015, we asked Dan Simkowitz to run the business reporting directly to me. Throughout 2016, we undertook an organizational realignment aimed to unify the business, rationalize costs, and better take advantage of the firm's distribution and origination platforms. We've also positioned ourselves for growth by launching new products such as our ultra-short bond fund, and have had strong momentum in fundraising across a number of funds, including private infrastructure and real estate. Finally in 2016, we dealt with what I would describe as legacy clean-ups to the business.

In the fourth quarter, we sold or marked down a number of third party LP fund positions from the 2005 to 2007 period. Jon will walk through the associated costs in a moment. I am confident that the business will move forward on more stable footing. In the medium to long term, we continue to see opportunities for growth, which you'll hear more about throughout the year.

Let's now turn to the final slide of the presentation. Over the past few years, we've consistently increased our dividend and significantly increased our total payout to approximately $5 billion while also growing our common equity base. We believe we are more than sufficiently capitalized for our business mix as well as for our size and risk profile. Strong capital return is a critical element of our future success.

Thank you for listening. Now let me turn it back to Jon, who will discuss our fourth quarter results, and then together we will take your questions.

Jonathan Pruzan

Thank you James, and good morning. The fourth quarter was solid, demonstrating continued consistency and progress against the 2017 plan we outlined last year. In a quarter that is typically characterized by a slowdown across several of our businesses during the holiday season, we generate the highest quarterly revenues for the year. Firm revenues of $9 billion were up modestly compared to Q3, making the third consecutive quarter with revenues of approximately $9 billion. In the fourth quarter, CBC was $2.2 billion, EPS was $0.81, and ROE was 8.7.

Our results in the quarter benefits from net discrete tax benefits of $135 million. These tax benefits were largely offset by other discrete items in wealth management and investment management, which I will discuss shortly.

For the fourth quarter, non-interest expenses were $6.8 billion. Typically fourth quarter seasonality and professional services contributed to the sequential elevation. For the full year, non-compensation expenses are down approximately $700 million. Total non-interest expenses were down a little less than $900 million for the year. While some of the expense reduction was attributable to our business mix, Project Streamline initiatives accounted for the vast majority of these savings.

As you know, with Project Streamline last year, we've committed to reducing $1 billion of expenses by 2017, assuming flat revenues. The targeted reduction was driven by three core levers: support services efficiencies, compensation discipline, and normalized litigation.

As it relates to support services, we continue to make progress in our workforce strategy, taking advantage of technology as appropriate. We have thoroughly reviewed our vendor relationships, identifying and executing consolidation opportunities that resulted in synergies and rate reductions. We have noticeably reduced marketing and business development costs by actively managing discretionary spending combined with price renegotiations. We continue to benefit from shutting down the two North American data centers and remain on track to close two additional ones last year. Finally, where we have right-sized certain businesses, we have also right-sized related support groups. Further, we have discontinued services and associated non-compensation costs tied to these reductions.

In addition to support service efficiencies, we remain disciplined around compensation, and litigation expenses have also decreased year over year. As we look forward to 2017, we are well on our way to executing the roughly 200 expense initiatives we identified. Importantly, we are focused on keeping these costs permanently out of the expense base.

Now to the businesses. Our institutional securities franchise performed well in Q4. All three of our major business lines produced strong results with total net revenues of $4.6 billion, essentially flat to the third quarter. Non-compensation expenses were $1.7 billion for the quarter, up 11% sequentially mainly driven by seasonality and execution-related costs. Compensation expenses were $1.6 billion, bringing our full-year ISG compensation to net revenue ratio to 36% compared to approximately 37% last year, excluding DBA.

In investment banking, we generated $1.3 billion in revenue, a 15% increase over the third quarter. The increase was driven by continued strength in advisory and a rebound in fixed income underwriting revenues, partially offset by lower equity underwriting revenues. For 2016, we are number two globally in IPOs, announced M&A, completed M&A, as well as equity and equity-linked offerings. Going into 2017, the overall investment banking pipelines remain healthy. Capital markets are open and functioning with increased investor optimism post-election. It is too early to tell whether the optimism will translate into conviction, allowing us to pull deals from our pipeline into the markets.

Advisory revenues for the quarter were $628 million, up 25% versus 3Q16, and at $2.2 billion they were up 13% for the full year. In an environment where growth continues to be challenged, clients are engaged in strategic dialogue and executing on meaningful transactions.

Turning to underwriting, the difficult environment for equity underwriting observed throughout the year continued into the fourth quarter. Revenues were $225 million, down 5% versus 3Q16. Several political events, such as the U.S. election and the Italian referendum, along with actions by the FMOC, ECB, and OPEC contributed to conservatism by issuers and investors throughout the quarter. Specifically in IPOs, while activity generally picked up after the first quarter, volumes in 2016 were down 35%.

Fixed income underwriting revenues increased 16% sequentially to $421 million, driven by strength in high yield and a pick-up in event lending. As previously discussed, we tend to perform better in markets where we see more non-commoditized debt products and activity. Looking ahead, both investment grade and high-yield markets continue to be open to issuers, and we expect to see healthy activity in 2017.

Sales and trading revenues were flat sequentially, weathering seasonal trends, demonstrating strong and consistent performance throughout the quarter. In equities, we expect to finish number one globally for the third consecutive year with annual revenues again exceeding $8 billion. In the fourth quarter, revenues were just under $2 billion, up 4% versus the fourth quarter. Performance was strong across all products and regions.

Revenues in the Americas has particularly strong growth as investor optimism and trading activity improved after the election. As a consequence, cash equities were higher sequentially as market volumes increased. Compared to most fourth quarter, derivatives withstood recent seasonal trends and demonstrated strength throughout the year.

In fixed income sales and trading, we continued to build on momentum from the prior two quarters. Q4 revenues of just under $1.5 billion were seasonally strong and essentially unchanged from the third quarter. Idiosyncratic events resulted in an active trading environment. Quarter over quarter, our macro businesses benefited from increased volumes in rates and repositioning in FX as the markets re-priced the path for U.S. monetary and fiscal policy following the election. Credit saw a sequential decrease as activity was slower than the third quarter, although the general environment remained relatively benign.

Fixed income RWAs and SLR exposure ex-lending were $117 billion and $339 billion respectively on December 31. As James discussed, we are managing our sales and trading business holistically and are sharing and optimizing resources as appropriate. Accordingly, going forward we will no longer report individual RWA and SLR targets for fixed income.

Full revenues for fixed income of $5.1 billion, up 19% versus 2015, are the highest since 2012 ex-DBA. The comparison is more favorable when taking into account the sale of our oil merchanting business in 4Q15.

Lastly, average trading VAR for the quarter was $39 million, down versus $42 million last quarter. We continue to take advantage of periods of market liquidity to de-risk our balance sheet. This provides us with an opportunity to prudently raise VAR if accretive client opportunities present themselves.

Now turning to wealth management, we reported record net revenues of $4 billion, and annualized revenue per FA is over $1 million for the first time. The PBT margin was 22%, negatively impacted by a provision in connection with certain brokerage tax reporting issues. We saw strong client flows of $17 billion. Fee-based assets increased 3% to $877 billion and now represent 42% of client assets. Both are at respective highs. Total client assets now stand at $2.1 trillion and this positions us well going into 2017.

Asset management revenues increased 2% quarter-over-quarter, further building our base of annuitized revenues. Net interest income was up 11% sequentially. The increase was attributable to both loan growth and lower prepayment amortization. Bank lending balances were up approximately $3 billion quarter over quarter, ending the year at $60 billion. Over the last year, net interest income growth of 19% was primarily driven by our deposit deployment strategy and lending growth. Looking ahead, we would expect further NII growth but expect a more balanced contribution from deposit deployment and interest rates.

Transactional activity benefited from the strength in the back half of the quarter as retail investors re-entered the market, driving stronger commission revenues. This was partially offset by a continued subdued equity underwriting calendar. Total transaction revenues were $774 million, down 2% versus 3Q but up when excluding the impact of mark-to-market losses on our deferred compensation plans.

Non-compensation expenses were up 13% in the quarter. The aforementioned provision and seasonality contributed to the increase. The compensation ratio was 56.5 on a full-year basis, on track to meet our 2017 objective of at or below 56%. The execution of our expense initiatives has allowed us to continue to invest in our infrastructure, our digital capabilities and readiness for future regulatory developments, while simultaneously improving our margins.

In investment management, total net revenues were $500 million, down 9% quarter over quarter. The business reported asset management fees of $512 million and AUM of $417 billion, both essentially unchanged versus 3Q. Investment revenues in the quarter were negative $24 million, which included a loss of approximately $60 million associated with the sales and markdowns of non-strategic third party LP investments. Overall, expenses were up 4% quarter over quarter.

Following updated guidance from the Federal Reserve at the end of 2016, we will apply for additional extensions for essentially all of our investments in legacy cover funds, subject to the Volcker rule.

Turning to the balance sheet, total and average assets remain relatively flat at $811 billion and $821 billion respectively. Pro forma fully phased in Basel III advanced RWAs are expected to be approximately $371 billion, essentially flat to the third quarter. Our capital position remains strong. Our pro forma fully phased in Basel III advance common equity Tier 1 ratio stayed flat at 15.8%. Our pro forma fully phased in supplementary leverage ratio for the quarter increased to 6.3%.

During the fourth quarter, we repurchased $1 billion of common stock or approximately 27 million shares, and our Board declared a $0.20 dividend per share. For the full year, we repurchased $3.5 billion of common stock or approximately 117 million shares, compared with $2.1 billion or approximately 59 million shares in 2015.

Our tax rate in the fourth quarter was 25.2%, including the $135 million discrete tax benefit. For the full year excluding net discrete items, our tax rate was approximately 32%. As wealth management continues to become a larger percentage of our PBT, we would expect our tax rate to drift higher towards 33% in 2017 and we would expect our tax rate to continue to exhibit quarter to quarter volatility. Of course, all of this is subject to U.S. corporate tax reform.

As James discussed, we started 2016 with five strategic objectives to be achieved over two years, and we have made solid progress on all of them. We are on track to achieve our 2017 ROE target of 9% to 11%. Although the revenue environment was challenging in the first quarter of the year, we were able to position ourselves well for 2017 and beyond. We did this by improving our cost discipline and executing strategic initiatives, including our bank strategy and our fixed income restructuring, while retaining leadership positions in areas of traditional strength of equities and investment banking.

Recently, increased investor optimism and more constructive markets are positive signs for our businesses. As always, changes in macro and geopolitical factors can have meaningful impact to market sentiment, but for now we are encouraged by the increased confidence of market participants.

With that, we will open the line to questions.

Question-and-Answer Session

Operator

[Operator instructions]

Our first question comes from the line of Guy Moszkowski with Autonomous. Your line is now open.

Guy Moszkowski

Thanks, good morning. As you pointed out, you met a lot of your objectives for the year, and I guess it points to the question specifically in fixed income, given that you’ve maintained that target at $4 billion, or a billion dollars quarterly, and even in what was a terrible year last year, you managed 4.3, I think, and this year you did 5.1. It kind of begs the question of whether you wouldn’t raise your sights on that.

James Gorman

You know, Guy, these were targets we put in place a year ago for 2017. We've seen a lot of cycles in fixed income. We've had a lot of people questioning our strategy over the last several years. I think we feel pretty good about what we did in restructuring the business. I think the new team bringing together with equities obviously was a very positive move there, and we'd just like to see it play out a little bit. There's no point getting ahead of ourselves at this point. Most of our peer companies do not put out such specific goals as we do, and I don't feel like we should be updating them every year. Let's see it play out.

Guy Moszkowski

Okay, fair enough. By the same token, looking at Slide 13 where you show 23% to 25% margin target in wealth management and then you've got a question mark on 2018 and 2019, it looks as if you've drawn the 2018 bar a bit higher, though. Maybe you can give us the thought process there and what you might aspire to by the end of the year.

James Gorman

You have remarkable good eyesight, Guy. I had not noticed that graphic detail. You know, I think it's fair to say if you took this chart back even further, our pre-tax margin in the mid-2005 and '06 range was around 3%. The scale economics of the business are sort of unshakeable, and building out the bank side has obviously given that a huge kick. What's been missing has been the retail investor, what has been missing has been the new issue calendar in the last several months, and what has been missing has been interest rates. If those things happen, just from the position we are in now, we feel obviously strongly about the target for this year. If those things happen, there's obviously additional upside, and that's exactly right - that's what the question marks were meant to evidence, not exactly the line on the graph, but I take your point. We feel as good about this business as we've felt for a long, long time.

Guy Moszkowski

Fair enough, and thanks for that. Maybe I can just follow up on one of the items that you mentioned there in terms of interest rate sensitivity. Your interest rate sensitivity disclosure feels somewhat mechanistic - it's just on the bank. I was wondering if you had maybe a more holistic view for wealth management in particular as to what, say, a parallel shift in the yield curve of 25 or 50 basis points should do, all other things equal for the wealth management business.

Jonathan Pruzan

Let me try and take that one, Guy. I think as you point out, the wealth business and the NII in that business is clearly the most sensitive to rates. I think last year, we told you that the growth in NII - and I can't remember what slide it is - but we showed you that in wealth, it went from $3 billion to $3.5 billion. That was really driven by deposit deployment and the growth in the lending balances. I think what we're saying for 2017 is that we still expect NII growth, albeit at a somewhat slower pace, and it's probably going to be more mixed in terms of where that comes from.

We still have some room to play out in the deposit deployment strategy. We still feel good about our lending balances - they went from 48 to 60, we would expect to continue to grow the loan balances. Clearly mortgage will probably slow down a little bit given the increase in rates, but SBL and the tailored lending product continues to show good growth, so we'll see some average earning asset growth that will drive that.

Then lastly, this year we do expect to get a little bit of a lift from rates, particularly if the forward curve is realized. I can't exactly remember, but in the first quarter of '16, I think the forward curve was showing maybe one or half a rate increase. Now we obviously have two rate increases, and to the degree that those get realized, that will clearly help that NII line in wealth.

Guy Moszkowski

Okay, great. Thanks very much.

Jonathan Pruzan

Thank you.

Operator

Thank you, and as a reminder ladies and gentlemen [Operator Instructions]. In the interest of time, we do ask that you please limit yourself to one question and one follow-up question. You may then re-enter the queue by pressing star, one again for any further questions.

Our next question comes from the line of Steve Chubak with Nomura. Your line is now open.

Steve Chubak

Hi, good morning. Wanted to ask a follow-up relating to Jon, your last remarks concerning ROE targets for 2017. You'd previously indicated at the last strategic update that hitting the 9% was really contingent on delivering mid-single digit revenue growth per year, and it looks like consensus is modeling somewhere closer to low single digit, so instead of your 3% to 5%, somewhere closer to 2%. But given the significant progress you've made on the cost side, I'm just wondering whether you can still hit the 9% even if revenue outlook materializes more in line with consensus.

Jonathan Pruzan

Sure. I think that if you recall, one of the slides, we started with a 7% ROE. We said a billion dollars of expenses should add about 100 basis points of ROE, and therefore the revenue growth was going to generate the difference. We still feel very good about the target. We still have more progress to make on the expense side, and we would expect to keep those expenses out of the business, so the operational leverage on those revenues is pretty good.

So again, I think in light of the last three quarters that we've put up close to $9 billion and sort of, as James said, on average about an 8.5% ROE, we see a clear line of sight to that 9 to 11, and we feel pretty confident about it.

Steve Chubak

Got it, and just one quick follow-up relating to the wealth management comp guidance you guys have given. Just looking at the business, the comp ratio did tick down slightly this year, about 50 BPs, so continuing to grind that lower, but admittedly the mix, particularly towards higher margin NII, would have suggested that maybe we should have seen a little bit more progress. James, you actually alluded to some of the competitive dynamics in your prepared remarks that could drive intensifying competition. Just wanted to get a sense as to what factors have impacted your ability to drive more meaningful comp leverage, and maybe how much incremental margin upside we could see from higher rates, alluding to Guy's question about the rising column chart in terms of margin progress beyond 2017.

Jonathan Pruzan

Again, in terms of the rate question, I'll answer that. We did increase NII $500 million in that business, or more than $500 million in that business last year. We would expect to continue to grow NII, not--it's obviously a bigger number and so growth rates will slow down, but we feel very good about the margin and the net interest income opportunity, and that will clearly drive an increase in our margin. We were 22 and change for the year, so again we have clear line of sight into that 23 to 25 level.

James Gorman

I'd just say on the comp ratio quickly, you know, I think it's clearly encouraging. It's heading in the direction that we all want. At the same time, we are making some investments in the business. I mean, the bank build-out is critical, and we've got to be careful that we're not pennywise and pound foolish here. We need to invest behind the bank, we need to invest behind that digital strategy, we need to invest behind upgrading the technology and the branch system, and we've been investing behind our marketing efforts there.

So you know, while we could probably accelerate the comp ratio decline, I'm not sure that would be good for the medium and long-term growth of the business, which we're all focused on at the same time.

Steve Chubak

And how far along are you in terms of those investments? Are they largely completed at this point, or should we expect that to be ongoing?

James Gorman

No, I don't want to overstate them; they're just--it's part and parcel of running good business. You're always investing in your business. The business mix itself will dictate a decline in the comp ratio, as will further growth because the incremental expense costs on the further revenue growth are obviously relatively attractive.

Steve Chubak

Thanks so much for taking my questions.

James Gorman

Sure.

Jonathan Pruzan

Thank you.

Operator

Thank you, and our next question comes from the line of Mike Mayo with CLSA. Your line is now open.

Mike Mayo

Hi, I just want a clarification. Your ROE target of 9 to 11% is for the calendar year 2017, and it's not contingent on anything right now. You're committed to getting to that ROE?

James Gorman

Well Mike, I think when we set that target, and we stand by it, it was contingent upon three things, as you'll recall. I think it was the last page of the presentation a year ago. one of them was 3 to 5% revenue growth, one of them was continued progress on our capital return, because obviously ROE is a function of both the equity and the earnings, and the third was no one-time large enforcement-slash-litigation--you know, financial crisis-type events. This year, we saw zero revenue growth, or maybe 1%, I think. We saw no one-time large-slash-enforcement litigation events, and we were able to increase our capital, but we still accreted capital interestingly. Even with our capital increase, we're not at 100% payout.

You know, we're confident we'll be above 9%. Obviously if there's a very difficult revenue environment this year, we stand by our original predictions that we're subject to, and I don't think we're going to need to be at the 3 to 5% revenue growth to get there, but certainly if we had a negative revenue environment, that'd be a different issue.

Mike Mayo

Then as far as your progress in trading, you're gaining market share in equities for sure, and it looks like a little bit in fixed income. Is that from U.S. banks or European banks, and if it's in European banks, is that the sustainable?

Jonathan Pruzan

So Mike, yes--I mean, as you said, we put up over $8 billion in equities and $5 billion in fixed income. The equity pool in terms of the revenue or the wallet looks like it will shrink for the year - we haven't seen everyone's results yet, and we had the opposite phenomenon in fixed income where it looks like the pools have been getting a little bit bigger sort of quarter to quarter.

In terms of where that share is coming from, it's sort of hard to discern, but I would say one of the things that we've been very proud of and very focused on is keeping the global network intact as we restructured and changed our businesses around the globe, and I think that global network is accruing benefits to us as we've seen others around the globe sort of disrupted or distracted, based on the events going on. So unclear if it's coming from any particular competitor, but we do feel good about the shares that we have and the momentum we have in those businesses.

Mike Mayo

And then last follow-up, James, you mentioned the 10-year retention for wealth management personnel. Can you just summarize what that's about and when that could impact results?

James Gorman

When we did the deal, Mike, in I believe it was closed in the early--mid-January of 2009, we did the deal, we put in place a retention program which is not uncommon for these kind of transactions, particularly when you're moving financial advisors across platforms and creating a reasonable amount of disruption at that point in time. We moved all of the financial advisors ultimately onto a new platform, those from the original Dean Witter franchise, those from Morgan Stanley, and those from Smith Barney. The net impact was several thousand financial advisors at that point were given a deal, a retention deal depending on size of business, shaped sort of the nature of the deal. It's amortized over nine years, I believe - nine or 10 years, I think it's nine years. The last year of amortization, the expiration of it is in January of 2018, if memory serves me, so--

Jonathan Pruzan

Nineteen.

James Gorman

Maybe it's '19. We'll clarify that - I think it's '19. So we've got two years left of the nine-year deal. Some of those financial advisors in the meantime have retired; a small number have moved onto other employment, so the annual amortization rate is probably not exactly the same year by year, but it's a meaningful number. We finish with that in two years' time. We've been paying it for seven years so far and we've got two years left, but then it's done.

Mike Mayo

Right, thank you.

James Gorman

Sure.

Operator

Thank you, and our next question comes from the line of Glenn Schorr with Evercore ISI. Your line is now open.

Glenn Schorr

Hi, thanks. On the $17 billion of fee-based flows, I'm curious if there's any new client money in there, or is that all a result of conversion of current client? Within that, I'm curious if that's just all-natural progression as you've basically doubled the fee-based assets over the last seven years, and where you think that natural resting ground will be as DOL may be coming into play in a couple months.

Jonathan Pruzan

Sure. I think for the first question, it is a mix of both, some new assets as well as existing assets. I think we've always said that we think there's a secular trend going on here long-term, that people are moving towards fee-based accounts and want to have that choice or use that mechanism at an account level, as opposed to a brokerage account, so this is a trend, as you said, that we've seen for quite some time. We would expect it to continue. We're now at 42% of client assets are in fee-based accounts. We continue to believe that that number can go higher and expect it to drift higher as we--as time continues to play out.

What the natural or what the ending point is, is unclear, but we still think there is room above 42.

Glenn Schorr

While we're on that topic, let's just say that DOL goes as planned, meaning there's no dilution, there's no delay. Does the April 10 deadline, is that an event that changes behavior ahead of it on this fee-based discussion, or is it just natural progression, the date is just the start date?

Jonathan Pruzan

Yes, I think it's hard to sort of parse out why people are changing. We're clearly positioned to be in compliance with the rule if it goes into effect on April 10. What we've always said is we want to give our clients choice, so they will have choice to either move into a fee-based account or stay, and therefore this is about client preference, and we're happy to see how it plays out.

Operator

Thank you, and our next question comes from the line of Brennan Hawken with UBS. Your line is now open.

Brennan Hawken

Good morning, thanks for taking the question. One quick one here on ROE, or actually it might not be all that quick. So I get it that there is some uncertainty in the revenue environment, but you guys highlighted it seems like momentum continues to improve, specifically FIC looks stable, exceeding targets with lower capital, equities strong, and II starting to benefit from rate uplift, and risk appetite is expanding and transactional revenues are starting to improve in wealth management. So--and then finally, we've got the outlook for potential changes from a new administration that's highlighted regulation and a desire to cut back.

So in light of all that, how should we think about the ROE guide? It certainly seems like the low end given those factors would be quite easy for you, and how should we think about that new administration and potential benefits from lesser regulatory burdens?

James Gorman

Well Brennan, I think you just outlaid the bull case. The bear case would be the retail investor doesn't engage, there's a geopolitical or political event which creates enough confusion in the minds of potential issuers that the underwriting calendar doesn't come back, the M&A pipeline for whatever reason does not crystallize, given some of the changes on the political front, including potential tax reform, et cetera. So you know, I think--listen, we're all working hard here to get the ROE up higher. We have been explicit in setting a range and a time frame for that range. Again, I don't know that our--that is being common practice among our competitor set, but we did it and we're very comfortable with that range.

So you know, if we have the high class problem you've laid out, which we all hope we do, terrific - we'll generate a higher return than we might have estimated at the low end. But let's see that play out over time.

Operator

Thank you, and our next question comes from the line of Andrew Lim with Societe Generale. Your line is now open.

Andrew Lim

Hi, good morning. Thanks for taking my questions. I was wondering if we could return to the NII sensitivity. It would be nice to get some measure of how much your NII would increase for, say, a 100 basis point parallel upward shift in the curve. I think you did something along those lines in the 1Q fixed income presentation last year, so perhaps you can give an update on that. And then just together with that, perhaps give a sense of how sensitive you are to the short end increasing versus the long end - are you predominantly sensitive to the short end increasing and then hoping that that short end increases in tandem with what the curve is indicating?

Then--sorry, just a second question, if I may. Your CET1 ratio was virtually unchanged on the quarter despite the strong earnings, and I was just wondering if you could talk a bit more about any negative OCI impacts coming from [indiscernible] valuation adjustments. Could you also talk about how you view excess capital? I think [indiscernible] on the same page as seen as having a lot of excess capital, but the question mark is how much? What are you waiting for in terms of having that return to shareholders - more clarity on the regulatory front, maybe the stress capital buffer becoming more a tangible part of capital ratios? If you could talk about that a bit more, that'd be great.

James Gorman

Hey Andrew, that's a lot of questions for one question, and glad to see we came out with your recent research. I'm going to let Jon answer maybe one of these and we can follow up offline.

Jonathan Pruzan

I'll pick one. So I think--as you know, on the capital return, we just re-submitted our CCAR submission. We'll wait to hear back from them. We continue to increase our capital return. In our disclosure, you can see what we have in parent capital, and we would like to continue--as our earnings grow, we would like to continue to return more capital to shareholders.

The second point I would make on your Tier 1, I think it was your CET 1 question, it's just around we had--our buyback and our preferred and common dividends sort of offset our earnings, and then you saw a movement in our AOTI. We have about a $60 billion AFS portfolio throughout the organization, and that caused about a $700 million, give or take, after-tax impact. So all the earnings net of the buybacks and the dividends and the AOTI sort of ended up in a flat place.

Operator

Thank you, and our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch. Your line is now open.

Michael Carrier

Right, thanks guys. Just a few on wealth management, and some of these are just clean-ups; but I think, Jon, you mentioned some expense items in this quarter. I think it was related to something on tax, something--some tax issues, but I just wanted to make sure we had that amount, if you had it. Then on the net interest income, any color on, just given the strength in the quarter, how much was maybe non-core, like prepayment, stuff like that? And I think in the past, you've mentioned--I think it was 150 basis points, it was like $1.1 billion TBT, but any update just on the sensitivity there?

Jonathan Pruzan

Right, I'll go backwards. I don't recall the 1.1 comment, so I don't think that came from me. In terms of the other questions--I'm sorry, start again, go back?

Michael Carrier

Yeah, it was just the expense item. I think you mentioned there was something in wealth management.

Jonathan Pruzan

Yeah. I think we-- as you can see from the non-comp expenses, that gives you a sense of sort of the magnitude. The full-year TBT was 22. We feel good about the 23 to 25% margin in that business going forward, and we took a provision this quarter to address those issues that we've identified.

What was the other question? I'm sorry.

Michael Carrier

No, that was fine. I just didn't know if there was a--if you sized it. The other one was just on the rate sensitivity.

Jonathan Pruzan

Yes again, I think we are--we feel good about our rate position. We are at the sensitive. Duration in the bank is still--if you look at the bank in totality, it's still under two years. We saw one increase in the end of '15, we saw one increase at the end of '16, so we have started to get a little bit of uplift in terms of the return on our cash and on our short-term securities. The mortgage origination pipeline is still pretty good. New mortgages are being written at higher rates, so we'll get the benefit of that. The duration in that portfolio extended a little bit out; but again, we feel good about NII growth in the bank. You will see that in the results in the wealth management business, that we've taken that number from under $2 billion a couple years ago to $3.5 billion in NII, and we would expect that to continue to grow, and that will obviously help the margin in that business.

Operator

Thank you, and our next question comes from the line of Devin Ryan with JMP Securities. Your line is now open.

Devin Ryan

Thanks. Good morning James, Jon. A couple quick ones here. So in wealth management, just wanted to follow up on James' comment about one leg of the strategy as a move towards focusing on clients that are interested in a full digital relationship. Just curious if we should think about that as maybe expanding the customer base to smaller levels of investable assets, just because those will become more economic. Just trying to think about what that comment means.

James Gorman

Well you know, I think that there has obviously been an evolution in this industry, and there's clear market segments. The vast majority of clients that we deal with and aspire to deal with are people who are attracted to the intellectual capital and product offerings that a firm like Morgan Stanley has, so we have disproportionately much larger households among our 2, $2.1 trillion of assets, a very large percentage of them in household above $10 million, and again between 1 and $10 million that we'll be building a lot of digital technology to support the financial advisors and the branch operations and delivering online capability and services to those clients.

At the same time, there are clients who want to deal with a digital-only platform, and we're sort of reserving the option to serve that client base. We don't think in the certainly short, medium, maybe even long term it's going to be a large part of our business - that's not our presumption. We're not a pure online or direct player, but we have that capability.

I think the biggest opportunity, however, exists with providing online capability to existing clients who want a multi-channel relationship with us.

Devin Ryan

Got it, okay. That's great color. Then just staying on TWM, looks like a slight downtick in FA headcount. On the other hand, you had, it looks like, a record quarter of productivity, which was good to see. Just curious if you can give any thoughts around headcount trends from here, the outlook for recruiting? I suspect maybe the deal wells had a load of negative impact on that, but curious where we go from here.

Jonathan Pruzan

Yeah, listen - I think as you know, the FA headcount bounces around a little bit. I think we're comfortable with the levels that we are at, and it probably is sort of in and around this level. We have seen a slowdown in recruiting, both in terms of ins and outs. The net impact has been a little bit, as you see here, a little bit of attrition; but again, I think this is sort of a level that we're comfortable with and that the recruiting environment has certainly slowed down over the last couple quarters here.

Operator

Thank you, and our next question comes from the line of Eric Wasserstrom with Guggenheim. Your line is now open.

Eric Wasserstrom

Thanks very much. So my question is basically about the levers to--in which optimized can be--you know, capital can be more fully optimized. I guess the two parts of my question are, on the one hand, as long as the CCAR process exists, obviously there will be constraints on how much capital presumably can be returned in any given period of time; and on the other hand, you've sort of right-sized your fixed footprint and so it's now consuming less RWA than it has historically. So is there anything that can be done in which RWA can be generated in a way that consumes this capital and accretes then to revenue, that's different than what the current experience is?

Jonathan Pruzan

The way I would think about it is as we generate capital, we've said we have sufficient capital, so we'd like to keep it stable. To the degree it accretes, which it did accrete over the course of the year, we can try to continue to support our client base. We have capital capacity to increase our balance sheet if the opportunity presents itself, so that's certainly an opportunity that we haven't seen in the past. Clearly over the last couple years, our balance sheet has sort of been flat to down, but as we see some increased activity and client activity across the globe, there is an opportunity to invest that back into our core businesses, so that's another area that potentially looks like there could be an opportunity this year, whereas I would say last year it didn't feel like we were in that same spot.

Eric Wasserstrom

Got it, so that was actually my follow-up. So it sounds like in '17, you think there might be a bit more opportunity for balance sheet growth?

Jonathan Pruzan

Again, I think we enter this year with more of a half-full optimism, as opposed to if you recall in the first quarter of last year when we set out these targets and these guidelines. We were in a very different and difficult environment, and it was a very much half-empty environment with sort of disruption and not really functioning markets. Today, markets are open and functioning, and there is this new sense of optimism. So if that continues, there should be potentially opportunity to increase the size of the balance sheet.

Operator

Thank you, and our next question comes from the line of Fiona Swaffield with RBC Capital Markets. Your line is now open.

Fiona Swaffield

Hi, good afternoon. I have two questions. The first was in the past, Morgan Stanley has talked about the deposit beta within wealth management, and there's--I remember a number of 45 for 100 basis points. I wonder whether you could update us on that, whether that's changed, because it's some time since you've talked about it.

The second area was Brexit strategy. Wonder if you could talk again about where you're going on that front and what your options could be if there is a, as it looks like, a single market exit. Thank you.

Jonathan Pruzan

Sure. On the beta question, there's obviously been a lot of discussion around betas, mostly because we're now in an environment of rising rates where we haven't seen one in eight years, so everyone is sort of using models that are based on historical practices, and we obviously have seen also money market reform and some changes in the structure of the markets. I would say in terms of how we think about our beta today, Fiona, again I think my comments have generally been that we think the beta is about 50, and I think we still are comfortable that that's a reasonable effort--excuse me, a reasonable estimate. Realized betas on the first two hikes have clearly been lower, but we think 50 is probably as good an estimate as any, and we'll have to see how it plays out and what actually happens to rates.

James Gorman

Just on Brexit, Fiona, I think given the PM's speech this morning, we'd probably need a little more time to digest. This is a bit of a moving chessboard here. We like the U.K., we like the rule of law in the U.K., we like having our businesses there, and our aspiration is to keep as much of our business there as possible; but to the extent we have to comply with obviously the Brexit rules, we'll be putting a headquarters somewhere in continental Europe, and that will have some implications going forward. But it's a little early at this point. Let's digest what she said this morning, and we'll be meeting with them over the next week or so.

Fiona Swaffield

Great, thank you.

Operator

Thank you, and our next question comes from the line of Matt O'Connor with Deutsche Bank. Your line is now open.

Matt O'Connor

Hi. There has been a lot of focus on the asset sensitivity within the wealth management unit specifically, but I was wondering if you could comment on how the overall balance sheet is positioned for rising rates, including the institutional securities unit and investment management. Just thinking about the aggregate balance sheet.

Jonathan Pruzan

Yes, well I think that most of the--most of that sensitivity is in wealth, and will sort of be seen in that segment reporting wealth line. The institutional securities business, as you've tracked in the segment reporting, NII is not really how we think about that business, nor in sort of how it plays out in light of the sales and trading nature of that business.

Broadly speaking, rising rates in terms of what that is as a function of global growth rates and/or volatility will impact the sales and trading business; but again, most of the sensitivity lies within our wealth business because most of the assets outside of wealth are floating rate assets matched with floating rate liabilities.

Matt O'Connor

Okay, and then the follow-up, just in the institutional securities, we saw the net interest income there go down; but is that more just the mix shift in terms of how clients are paying more in fees versus the interest income, or is there more of a liability sensitive position there?

Jonathan Pruzan

Again, I think it's very hard to look at net interest income in ISG, particularly the sales and trading businesses. As you know, we're carrying inventories, we're trading positions. NII is created a lot of different ways. It's not really how we look at that business, so the wealth is the real area you'll see impact.

James Gorman

I think we're going to take a couple more questions. We're running a little overtime here, there's been a long queue. We'll take a couple more and then we'll shut it down.

Operator

Certainly. Our next question comes from the line of Richard Bove with Rafferty Capital. Your line is now open.

Richard Bove

Thank you. You had a very impressive quarter in terms of earnings growth, clearly, in the fourth quarter, but at the end of the day your common equity was down, which has been true of every one of the major universal banks. I'm just wondering, if interest rates are expected to rise on a continuous basis, I guess, certainly 2017 and beyond, how do you get common equity to go up?

Jonathan Pruzan

So, how do we get common equity to go up? We're actually trying to keep common equity flat, as we think we have sufficient capital to run our businesses based on the current size, shape and risk profile of the company. We have been increasing our capital return to try to achieve that. As you point out, this quarter we were impacted by a movement in our AFS portfolio, as well as some movements in DBA as our credit spreads tightened. Those movements are going to be volatile depending on what happens to rates and what happens to spreads; but again, our goal here is to try to keep capital pretty flat going forward.

Richard Bove

Yeah, but if interest rates keep rising and if the impact is similar to what you saw in the fourth quarter, your common equity is going to continue to fall. If your common equity continues to fall, in answer to an earlier question you indicated that you'd be able to expand the size of the balance sheet to take advantage of new opportunities, but you won't be able to do that if you can't get common equity to stabilize or rise in a rising interest rate environment.

In other words, you may be able to get an increased benefit in terms of asset sensitivity from some of your business lines, but from the balance sheet as a whole, the piggybank is smaller today, or let's say December 31, than it was on September 30. How do people benefit if the piggybank keeps getting smaller?

Jonathan Pruzan

Well again, I think we did accrete capital, average capital and absolute capital over the course of 2016. We started the beginning of the year 2016 saying that we were capital sufficient, so we have more capital than when we made those comments, so we can continue to leverage that capital. Our capital--our average equity was down $400 million, I think, quarter over quarter, so again on a roughly $70 billion base, it wasn't a dramatic decline. We still have more capital today than we did at December 31, and we continue to believe we have capital capacity to invest in our business and grow our business.

Operator

Thank you, and our next question comes from the line of Matt Burnell with Wells Fargo Securities. Your line is now open.

Matt Burnell

Thanks for taking my question. Two relatively quick ones, I hope. First of all, Jon, in investment management, obviously the fourth quarter numbers were a little bit skewed by the loss, but first of all, can you tell us a little more detail as to why you took those charges, and in the bigger picture you're still above the 40% target for comp to net revenues in that business, and how confident are you, you can get to that by 2017?

Jonathan Pruzan

All right, I'll take--let me take the first one first. As we said, these were non-core investments. They were capital intensive. They were limited partner investments - this was money that we didn't manage, nor had we invested. They were investments that were made going on 10 years ago when we made the risk decision to exit those positions, and we did and sort of took the charge that you saw in the fourth quarter of $60 million. So absent that charge, obviously better results in that business - stable asset fees, stable asset management fees, and would have been a better investment line was it not for that charge that we took. Again, those were decisions based on--risk decisions that we decided to exit those positions.

In terms of the comp ratio, to be fair, as you know, carry runs through that line item, so the comp ratio target that we put out there, it's really quite volatile and I don't think we're going to--you know, depending on what the investment environment is, it sort of perverts if we have a lot of carry gains. We won't meet our target, yet our income will be a lot higher, so that target is probably one that we won't meet depending on the investment environment.

The one thing I will tell you is that if you look at--you don't have the ability to parse this through the different line items, but the non-carry related comp expense is actually down as a percentage of the fee-based revenue, so we are exhibiting good expense discipline in that business, but it will be volatile based on carry and investment gains. So not a great target that we had out there, and probably one that we're just going to be focused on the discipline around the non-carry related comp.

Operator

Thank you, and our next question comes from the line of Jim Mitchell with Buckingham Research. Your line is now open.

Jim Mitchell

Hey, good morning. You guys have made great progress on the FIC RWAs, I think almost at your end state already, well ahead of schedule. Just before you stop disclosing it, can you just kind of walk us through on the SLR side? I think you still are less than halfway to your end state. Why is that slower than the RWA side, and is the end state still your target and how do we get there?

Jonathan Pruzan

Again, we've obviously--from the slide that James put up, when we announced the restructuring, we've taken the FIC RWAs down from 158 to below 120, which as you said was our 2017 target. SLR, we've also made some great progress from 417 down into the 340s. I think the difference, you're seeing obviously more liquid products, so in terms of leverage assets versus RWAs, that's one of the drivers. We feel good about the size of this business. We feel good about the results of this business, and again we're going to still manage this business aggressively but we're just not going to be really seeing those individual targets, as we think that the size of this business is appropriate.

Jim Mitchell

So what you're saying is where you are from an SLR perspective today is you're not going to get much more progress from here?

Jonathan Pruzan

No, I'm saying we're going to continue to try to make progress in those line items, but--and we feel good that there are probably some more opportunities. We have taken them down pretty dramatically from the 417 into the 340s, so we think there is still some optimization there; but we feel good about the size of this business and the results that its generated.