Operator

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs First Quarter 2019 Earnings Conference Call. This call is being recorded today, April 15, 2019. Thank you.

Ms. Miner, you may begin your conference.

Heather Kennedy Miner

Good morning. This is Heather Kennedy Miner, Head of Investor Relations at Goldman Sachs. Welcome to our first quarter earnings conference call. On this call, we will reference our earnings presentation, which can be found on the Investor Relations page of our Web site at www.gs.com. No information on forward-looking statements and non-GAAP measures appear in the earnings release and presentation. This audiocast is copyrighted material of The Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent.

Today on the call, I'm joined by our Chairman and Chief Executive Officer, David Solomon and our Chief Financial Officer, Stephen Scherr. You will find today's agenda on Page 1 of the earning presentation. David will start with a high level review of our financial performance, the current operating environment and provide an update on our strategy. Stephen will then share initial observation from ongoing front to back business reviews and cover first quarter results in each of our businesses. They will then be happy to take your questions.

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

David Solomon

Thanks, Heather. And thanks to everyone for joining us this morning. I'm happy to be here with all of you.

Let me begin on Page 2. We reported first quarter 2019 revenues of $8.8 billion, down 13% versus last year, reflecting a slower start to the year relative to the robust market backdrop of a year ago. Net earnings were $2.3 billion, resulting in earnings per share of $5.71. We posted return on common equity of 11.1% and a return on tangible equity of 11.7%. While we aspire to deliver stronger results, the overall franchise performed well in the context of more muted market activity in the first half of the quarter. Through Friday, we ranked number one in global completed M&A, number one in announced M&A and number one in global equity underwriting. We posted record net interest income and debt investing and lending and record assets under supervision and investment management.

Turning to Page 3, our results were generated in a mixed macroeconomic backdrop, particularly early in the quarter as a number of variables weighed on market sentiment. First coming up the challenging market performance in the fourth quarter, we saw central banks pivot to an accommodative policy on rate. In the U.S., the Fed shifted from its prior path of incremental tightening to a more neutral stance. In Europe, the ECB signaled move back monetary stimulus. Central banks in Asia also shifted to more dovish rhetoric amid a backdrop of low inflation and somewhat disappointing growth. The net result was a lower volatility environment as government bonds rallied and yield curves flattened in the U.S. and Europe. With the VIX and other measures of volatility at near record lows trading activity remained low.

Second, we saw a significant slowdown in IPO activity as a direct result of the government shutdown, which weighed on sentiment and kept issuers and investors on the sidelines. Despite the rebound in equity and credit markets, we saw lower client conviction. Third, ongoing geopolitical risks, including the U.S. China trade and Brexit negotiations added uncertainty. Notwithstanding the mixed backdrop, resilient macro fundamentals and rising asset prices spurred client engagement later in the quarter.

Our institutional investing clients appeared less cautious in March. And as we engaged with corporate clients around the world, we continue to hear a strong desire to execute strategic transactions and access the capital markets while the economy is growing, market prices are favorable and financing markets are open. Our backlog for IPO activity is robust. In that vein, we are optimistic on the forward as underlying indicators remain encouraging, and we're still very early in the second quarter.

On Page 4, let me give you an update on our strategic planning. Stephen will provide further context in a moment when he shares some initial takeaways from our front to back reviews. To drive long-term shareholder value, our strategy sets up three primary objectives; first, we aim to strengthen our existing businesses; second, we aim to diversify our business mix with new services to expand our opportunity set and increase the durability of our revenues; and third, we aim to operate more efficiently and effectively across all aspects, including expenses, financing and capital.

To achieve these objectives, we will endeavor to deliver one-Goldman Sachs to our clients; we will focus on growth where there is an adjacency to our existing businesses; we will expand our addressable market to deliver more products to existing and new clients; and we will pursue this expansion, via investments in talent, technology and platforms, all the while our emphasis will be on transparency with our stakeholders. As we seek to achieve our overarching goal of delivering superior products and services to our clients, we also look to leverage our spirit of innovation, our strength in engineering and our deep culture of risk management. Our ability to approach problems creatively and our willingness to adapt have served us well over our 150 year history.

Turning to Page 5. Last month, we announced an important partnership with Apple, a leader in innovation and consumer technology with whom we are taking an important new step, our first credit card. Quite a lot has been said and written about this announcement and we will be able to talk more about Apple card once the product has launched. We're excited about the opportunity and expect it will prove to be differentiated in the marketplace and create incremental value for the firm over time.

But importantly, I want to turn your attention to the key elements of this project as they represent the same drivers and underscore a range of major strategic growth initiatives underway at the firm. These elements include re-imagined products that address pain-points for corporations, institutions and consumers; new technology unburdened by legacy systems that often slowdown innovation; digital delivery mechanisms that produce scale and efficiency and access to large customer population. These elements are critical to our key growth platforms, including Marcus and mass affluent wealth where we will pursue partnerships to access large numbers of consumers; Marquee, our digital institutional platform where the ability to innovate can help us engage at scale with our institutional client base; and corporate cash management, where we can serve existing clients to the firm and offer differentiated products on a digital platform.

With the incredible focus and energy of the people at Goldman Sachs, our strategy is beginning to take hold. We are on an evolutionary path. Our new investments will generate results over time, and will be complementary to our long-standing core business, which we will continue to strengthen. Ultimately, we believe the strategy will allow us to serve more clients with differentiated products and services, increase the durability and predictability of our earnings profile, deliver improved profitability, optimize our capital and deliver higher long-term returns to shareholders.

With that, I will turn the call over to Stephen to give you some additional details and walk through the results in each of our businesses.

Stephen Scherr

Thanks David. Let me begin on Page 6, and frame our front to back reviews in the context of the strategy David just outlined. Last fall, as you know, we began a process of re-underwriting each of our businesses, including the development of three year plans for the firm. We're conducting broad and deep reviews. Our cadence and approach remain deliberate; no business, no revenue source, no capital or resources out of scope. And this requires us to take a thorough and extensive approach. FIC is of particular focus. And to that end, we are advancing a plan to enable FIC to improve its returns. The same is true across all businesses as we prioritize our investments to maximize shareholder returns.

On the revenue side of the analysis, we are assessing opportunities to grow our addressable market, enhance client experience and grow wallet share. In terms of resources, we are diversifying our funding mix and optimizing our financial resources, including capital and liquidity. Let me be clear. Our efforts are not designed as a cost-cutting exercise, which we could accomplish quickly. Instead, this is an effort to invest in talent, technology, platforms and straight through processing to drive new sources of revenue, improve efficiency and drive higher margins. Embedded in this effort is a clear goal to improve the client experience with Goldman Sachs, from the sales interaction through execution, processing and ongoing service. Enhancing the client journey will drive higher engagement and increase opportunities across the entire organization. These improvements will take some time to realize, but should ultimately create significant operating leverage for the firm and long-term value for shareholders.

Turning to Page 7. Let me be more specific in terms of the initiatives in both our existing and growth businesses. In Investment Banking, an important outcome of our review is our decision to further expand our client coverage universe. We first launched this effort in 2017 and we have since hired over 40 bankers, adding coverage for over 1,000 new clients, thereby increasing our footprint by about 10%. Given our early success, we have decided to expand the strategy. We are creating a specialized team within Investment Banking to serve new clients with enterprise values of less than $2 billion. We are looking to dedicate roughly 100 coverage bankers to this over time, increasing our capacity to cover thousands more clients. This effort will allow us to provide unparalleled strategic advice to more clients, while helping us maintain close attention to our existing clients.

In that regard, our new corporate cash management platform build is advancing. We are excited for this opportunity as it opens us up to a very large revenue pool, including an estimated $5 trillion of corporate deposits in the U.S. alone. We will provide innovative technology to differentiate our offering to clients. For our franchise, there is significant value in serving these clients, including lower deposit funding costs and additional foreign exchange revenues. Once operational later this year, our firm will be the first to use this service, which will save us nearly $100 million per year and reduce operational risk. We are on target to launch the product with clients in 2020. Lastly, these efforts will help us to better serve corporate clients across the firm, including in adjacent areas like ICS and investment management.

Next, in our institutional client services business, we identified a number of opportunities to better serve our existing client franchise and broaden our business mix. Across FIC and Equities, we are working to deepen our penetration with institutional and corporate clients, rural financing and increase our business with systematic investors. We are investing in platforms like Marquee to serve clients in new and more efficient ways. Marquee is our digital store front where our institutional and corporate clients consume GS content, risk analytics, pricing data and ultimately engage with us to trade. Every month, our platform logs over 14,000 unique users and fuels over 100 million API calls, including 10 million calls from clients from GS developer site.

As we go forward, we expect significant increases in client utilization, which carries the potential to generate revenue across a more engaged client base. As I mentioned, we are spending a significant amount of time on FIC, with a focus on growing revenues across each of our core businesses. While we may adjust our focus and footprint in some of these areas, we remain committed to serving our clients at scale. On this point, let me share some further insight. We have been closely reviewing our footprint in commodities, and we remain committed to business. We are excited about the opportunity to further integrate our FIC and Investment Banking franchises to support corporate clients who need expertise and financing solutions. However, our reviews have identified opportunities to cut expenses and capital from certain underperforming parts of the commodities business and increase investments in others. We have already taken many of these actions and expect to continue to make refinements overtime.

In credit where synergies with Investment Banking facilitate our high rankings in both trading and underwriting, we are building models and tools to facilitate faster inventory turnover and reduce drawdown risk as we execute client flows. Finally, through our one-Goldman Sachs initiative, we aim to shift focus away from per trade returns, taking a more holistic approach to client relationships. We anticipate FIC's flow activity will be a beneficiary of this approach.

Next, turning to our investment and lending segment. We're keen to leverage our best-in-class alternative investment platform, track record and the unique sourcing capability of the firm. We will seek to manage larger pools of client assets to drive more recurring fee based revenues. Given the strength of our investing teams, we believe this effort can bear fruit with limited incremental spend. This will be a transition. We will be prudent and patience as reduce our on balance sheet investing activities and bring on more client money. Overtime, this will be early accretion and drive lower earnings volatility for the firm. Separately, we intend to continue supporting our clients through prudent franchise adjacent lending that helps increase recurring net interest income and deepen client relationships.

To facilitate this, we will continue to tap into the large addressable market of consumer deposits. We estimate there are over $4 trillion of consumer deposited in the U.S. that are potential customers for online savings account like those offered by Marcus. Today, across both the U.S. and UK, we have $46 billion of online retail deposits, leaving a tremendous opportunity for growth and we will design our deposit platforms to capture our share.

Pivoting to investment management, we continue to grow assets under supervision in key strategic areas, including advisory, outsource CIO and ETFs, as well as in our world-class ultrahigh network business where we have modest share in a very fragmented market. As I mentioned, alternatives is a key focus where client demand remains very strong with over $1.5 trillion of capital raised industry wide in the past five years. We currently have over $170 billion in alternative assets under supervision, and plan to significantly increase fundraising in the months and years ahead.

As we have said before, we are building Marcus as a fully integrated digital business. As a broad multiproduct platform, wealth management will be a key component. This is a very large market with $9 trillion in mass affluent customer assets across more than 20 million U.S. households. We are planning a multitier digital wealth platform, currently in early development. Our offerings will further leverage our existing Ayco executive counseling business where we serve 60 of the Fortune 100, but only about 220 of the top 1,000. Ayco has the potential to carry us deeper into these organizations to facilitate the growth of a meaningful mass affluent wealth business.

Now, let's focus on resource optimization on Page 8. We are evaluating our activities across a range of balance sheet dimensions, including capital and funding. We've grown deposits at a compounded rate of 16% over the past three years, diversifying our liability mix and lowering funding costs. Going forward, we expect to grow our aggregate U.S. and UK retail online deposits on average by more than $10 billion a year. For every $10 billion of wholesale funding replaced with deposits, we estimate savings of roughly $100 million in interest expense annually. To utilize these deposits, we will continue to migrate businesses, such as foreign exchange into our bank entities.

On the capital side, we have identified two key areas where we can further optimize, in FIC and in our private equity investments. In FIC, we've made material progress, reducing standardized RWAs by approximately 40% over the past five years. We endeavor to do more from here, while identifying attractive opportunities for redeployment. Next, our private equity investments, which have generated strong returns, also require significant stress capital. Overtime, as I mentioned earlier, we will seek to reduce the capital intensity of this business by managing more client assets in fund form and reducing our balance sheet investments.

On platforms, we are actively pursuing a number of work streams to digitize manual activities, expand straight through processing and reduce cost per trade. Our front-to-back efforts include uplifts to client on-boarding, asset servicing, collateral management, margin valuation and settlement processes. Investments in these initiatives will better position us with systematic clients who demand lower latency and higher efficiency platforms. Finally, we are streamlining expenses and organizational structure. We are vertically integrating 7,500 operations and engineering professionals directly into the business to enhance the client experience and provide greater expense accountability to our business leaders. We're also making a number of changes to reduce cost and drive long-term operating leverage by increasing use of shared platforms across our business, and migrating more of our efforts to locations like Bengaluru, Warsaw, Dallas and Salt Lake City.

One thing we will not do, however, is compromise our risk, compliance and control functions, which remain independent and fully resourced. After a period of investment in 2019 and 2020, we expect these efforts to drive our efficiency ratio lower overtime. Based on last year's results for every 100 basis points in efficiency ratio reduction we achieve, it equates to approximately $300 million of net income and a 40 basis point increase in ROE all else equal.

Before moving to discuss the quarter, let me turn to Page 9, where we layout a roadmap for what to expect in the coming quarters in terms of performance targets, financial disclosure and a broader discussing of the strategic way forward for Goldman Sachs. Today, we discussed initial takeaways from our front to back reviews, which will continue. Next, over the coming quarters and on the basis of our work, we expected to find publicly a performance target to which we will hold ourselves accountable. As we move toward the back half of the year, we will pursue opportunities for improved disclosure to align with any changes in our business or organizational structure. Lastly, we expect to provide a more comprehensive and strategic update through the lens of any enhanced disclosure by the first quarter of next year.

Now, let me switch gears to our financial performance, beginning on Page 10. As David mentioned, the environment in the first quarter turned out to be mixed with back end of the quarter proving stronger than the front. Against this backdrop, we concentrated on serving our clients and investing to drive our business forward. Let's run through the numbers.

Turning to page 11. Investment Banking produced net revenues of $1.8 billion down 11% versus the solid fourth quarter and flat versus a year ago as very strong advisory performance offset a sharp decline in underwriting. Financial advisory revenues were $887 million, up 51% versus last year, driven by our leading market share. During the quarter, we participated in announced transactions of approximately $390 billion and closed on nearly $370 billion of deal of volume, ranking number one in global completed M&A. Client dialogs remained healthy and we are seeing increased activity in sectors, including financials, TMT, natural resources and healthcare. This is noteworthy as M&A activity in financials has been relatively slow over the past several years.

Moving to underwriting, net revenues were $923 million in the first quarter, down 24% from a year ago and up 9% versus the fourth quarter. Equity underwriting net revenues of $271 million declined sharply versus last year, driven by a lack of IPO activity. In the first quarter, we ranked first globally in equity underwriting with $16 billion of deal volume across nearly 75 transactions. Debt underwriting net revenues were $652 million, down 18% from a year ago. The first quarter of last year was our second highest quarter ever, causing a very strong comparable as it was aided by significant contributions from acquisition related and leverage finance activity.

Our Investment Banking backlog decreased versus the fourth quarter as revenues were realized. Of note, our equity underwriting backlog increased in the quarter in part due to delayed activity, as well as an overall pick up in IPO interest. We are optimistic that a number of significant technology companies are expected to come to market later this year.

Moving to institutional client services on Page 12. Net revenues were $3.6 billion in the first quarter, up nearly 50% compared to the fourth quarter and down 18% versus the first quarter of last year. FIC client execution net revenues were $1.8 billion in the first quarter, more than doubling fourth quarter levels, reflecting a better operating environment. We saw higher sequential performance across all five of our global fixed-income businesses as markets reverse the sharp December risk off moves. FIC revenues, however, declined 11% versus the first quarter of 2018 amid lower client activity. We saw lower revenues in rates, currencies and credit, while commodities and mortgages improved.

Turning to equities on Page 13. Net revenues for the first quarter were $1.8 billion, up 10% sequentially but down 24% versus a strong quarter a year ago. Equities client execution net revenues of $682 million fell significantly relative to a robust first quarter of 2018, which was our highest quarter performance in the past four years. Results were impacted by significantly lower performance in derivatives, given lower market volatility versus the first quarter of 2018 when volatility was elevated and client activity was robust. Commissions and fees net revenues were $714 million, driven by lower client volumes versus both last quarter and versus a year ago. Securities services net revenues of $370 million fell by 14% year-over-year amid lower average client balances as hedge funds deleveraged, though balances have been recovering.

Moving to investing in lending on Page 14. Collectively, these activities produced net revenues of $1.8 billion in the first quarter. Equity securities generated net revenues of $847 million, reflecting net gains from private and public equities, company specific events and corporate performance. Approximately 40% of our net revenues was from real estate. The first quarter demonstrated more muted results in equity INL relative to the performance of public equity markets. As I have commented on the last earnings call, this seeming inconsistency is because our portfolio skews more to private securities than public holdings as shown on the slide, and there were less event driven valuation remarks of our private equity holdings. Our global equity portfolio was $22 billion at quarter end and remains well diversified with roughly 1,000 different investments. It is also diversified by investment vintage and geography as shown on the slide.

Net revenues from debt securities and loans on Page 15 were $990 million and included $835 million of net interest income. Results included small mark to market gains, driven by underlying credit fundamentals. Our total lending portfolio was $96 billion, up $2 billion, driven by corporate loan growth. Approximately 85% of our total loan portfolio remained secured. Our credit provision was $224 million, roughly flat versus last quarter. Our firm-wide net charge-off ratio remained low at 50 basis points.

On Page 16, turning to investment management, we produced $1.6 billion of revenues in the first quarter, driven by our diversified global asset management business and leading PWM franchise. Net revenues included management and other fees of $1.3 billion, which were largely inline versus the fourth quarter. Overall, revenues declined versus a year ago due to significantly lower incentive fees and lower transaction revenues from PWM client trading activity. Assets under supervision finished the quarter at a record $1.6 trillion, up $57 billion versus the fourth quarter, driven by $20 billion of long-term net inflows in fixed income strategies and $59 billion of market appreciation, that being partially offset by $22 billion of liquidity product outflows.

Now, let me turn to expenses on Page 17. Our total operating expenses decreased by 11% versus the first quarter of last year, reflecting lower compensation and benefits expense and lower activity related brokerage clearing exchange fees. For the quarter, our efficiency ratio was approximately 67%, up 100 basis point versus year ago largely driven by lower revenues. Next on taxes, our reported tax rate for the quarter was 17.2%. This rate reflects our earnings mix and discrete tax benefits. We continue to expect our full year 2019 tax rate to be consistent with our medium-term estimate of 22% to 23%.

Turning to capital on Page 18. Our common equity Tier 1 ratio was 13.7% using the standardized approach and 13.4% under the advanced. The ratios improved by 40 and 30 basis points respectively versus year end, driven by higher retained earnings. Our supplementary leverage ratio was 6.4%, up 20 basis points sequentially. In the quarter, we returned a total of $1.6 billion to shareholders, including common stock re-purchases of $1.25 billion and approximately $300 million in common stock dividends. Our basic share count ended the quarter at a record low of 378 million shares. Our book value per share was $209. The limited growth this quarter was driven by credit spread tightening and its impact on DBA. Lastly, our Board approved a 6% increase in our quarterly common stock dividend to $0.85 per share in the second quarter.

Turning to Page 19 for balance sheet and liquidity. Our balance sheet was $925 billion, down 1% versus last quarter. On the liability side, our deposit base totaled over $164 billion this quarter, up $6 billion versus year end. Our global core liquid assets averaged $234 billion during the quarter, which may decline as we have opportunities to support client demand.

Before taking questions, a few brief closing thoughts. Our first quarter performance reflected the mixed operating environment, but we are cautiously optimistic that momentum late in the quarter can continue. We are making significant investments in our future to deepen and expand our client franchise and drive growth in each of our businesses. Combined with our investment in platforms and scale this positions us to create significant value for the clients we serve and solid long-term return to our shareholders. Importantly, we look forward to a continued dialogue with you on our strategic plans of the course of 2019 and beyond.

With that, thank you again for dialing in. And we will now open up the line for questions.

Question-and-Answer Session

Operator

[Operator instructions] And your first question comes from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr

Just a quickie on numbers on the comp ratio being lower, it's in line with what past years would be. Is that a pull forward? Meaning is that your best estimate for the year, or are we looking at a lower comp ratio environment to help support returns?

Stephen Scherr

So as you know in each quarter, we make our best assessment of what comp would be and fix the ratio on that basis. There is no fundamental change in policy that's implied in this. And as I said on the last call and we will continue to say forward our view is that we will encourage people to look at overall expenses both comp and non-comp, particularly as we roll out and build platforms that will yield higher marginal margin and that ultimately are less consumptive of comp intensive expense so much as OpEx intensive expense. But no policy shift implied in this.

Glenn Schorr

And on litigation front, only $37 million in the quarter – I will ask in different way. Do you feel like you have the handle on 1MDB and that's why there's a low litigation number? Or is it just not estimable probable at this point so you can't really reserve for it?

Stephen Scherr

I think based on reserves that we have taken over the past several quarters, we feel confident that those reserves are proper and adequate. Obviously, each quarter we reach out both to internal, legal and accounting experts, as well as those outside the firm so as to reassess circumstances, not just on 1MDB but any and all litigation. And so the number in this quarter is just a reflection of that.

Operator

Your next question is from the line of Michael Carrier with Bank of America. Please go ahead.

Michael Carrier

First question just on activity levels, I think one of the challenges is during the quarter, obviously, week first half and then that's improved but I think some of the things that you guys mentioned in terms of M&A, the pipeline weaker just given what completed but ECM better. I think you mentioned prime brokerage balance is picking up. So just wanted to get a sense on what areas of the business you think can reverse relatively quickly versus what areas you may take a bit longer for that confidence to come back to where we were, say in September of last year?

David Solomon

Michael, I will comment just broadly. There is no question that the sentiment in the early part of the quarter was quite muted. As I said before, corporations tend to be more thoughtful and take a longer time to shift those sentiments. While there is no question from issuing activity that will come out of corporations certainly slowed. I'd say that gets back to moving at a normal pace relatively quickly. The strategic M&A stuff is much more long cycle. And I don't think it's really been that significantly disrupted and the activity levels would certainly show that. In terms of market activity and client engagement, we saw significant pickup in the second half of the quarter. And given the environment that we're in that pick up can certainly continue. Now I prefaced it's only two weeks into the quarter, so it's hard to take any forward judgment on that. But I think that that activity level certainly improved meaningfully in the second half of the quarter.

Stephen Scherr

Michael, the only thing I would add to David's comment is that I think in equities, we're seeing and saw over the quarter month-by-month increases in prime balances, which speaks to an increasing level of activity. And I think if you look at the equity I&L line, though it doesn't necessarily skew to where the public equity markets fit, I think there is obviously the opportunity to take advantage of a positive environment just in terms of event driven valuation and the like as we play forward.

Michael Carrier

And then maybe just one the non-comp expenses, and some of the focus on efficiency. Stephen, you mentioned on the optimization efforts some of the things that you guys are focused on. Just wanted to get a sense, based on the investments that you have made over the past few years. Is that starting to slow and are some of these optimization efforts, will we start to see that come through in 2019? Is it more 2020 and beyond?

Stephen Scherr

First, I think when you look at the efficiency ratio obviously it was up on the quarter, which was more reflection of revenues being down than it is expenses, because expenses obviously came down. We've all said in the past that '19 is going to be the deeper part of the curve. I think when you look at investments that are being made over the course of '19 and '20, we have a view as we're now developing three year models as to when we'll see or begin to see efficiency play through. You'll see that in the context of cost per trade, you'll see that in the context of platforms that take lift, which carry with them higher marginal margin and less intensity in terms of expenses being put to it beyond the investment horizon. And so I would say that over the next several years, you will start to see that efficiency play through with the investment as I say being more profound now.

Operator

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

Steven Chubak

I wanted to start-off with a question on the I&L strategy. So you outlined efforts to increase fee-based recurring revenues and reduced the volatility in that principle investment line. One of the interesting comments that was made is that you noted this would be ROE accretive overtime, which is something that many investors have questioned just given the significant gains generated within equity I&L. I am just wondering how we should think about the driver of ROE accretion as some of those more volatile, but still elevated revenue streams go away. And is there any way for us as outsiders at this point in time maybe size the amount of stress capital that's allocated for that business today?

David Solomon

I think that it's important to understand this transition as just that, which is a transition away from the balance sheet intensive investing to one which is predicated largely on managing third-party money and generating fee revenue, which itself will dampen P&L volatility and be less consumptive of balance sheet is going to take time. That time is really management on our part to ensure that as we graduate down the slope of the curve of the balance sheet investing, we're mindful of the curve of taking up third party assets and the revenue generated from it. But that will be much less balance sheet consumptive and therefore, less consumptive of stress capital, which is this I&L is an area that as you know is consumptive of that. And so, this shift is really a reflection of that and I think it will bear out over a transitionary period.

Steven Chubak

And one more question for me is just on funding optimization. So in the deck and in your remarks, you noted that $10 billion plus deposit growth target for year with that 100 basis point spread benefit by replacing higher cost wholesale funds with lower cost deposits. Just looking at the momentum that you have in growing deposits. Is it fair to say that the $10 billion number is a conservative target? And how should we think about capacity or the upper bound on how much wholesale funding can be replaced with those lower cost deposits over time?

David Solomon

So I think your characterization of it being conservative is correct, it is. It's a conservative estimate. If you look back over the last several quarters, we've seen pretty demonstrable growth and take-up, both in the U.S. and in particular in the UK platform. I would also say as it relates to deposits that over time you will start to see us build greater functionality around the deposit platform such that we are ultimately less reliable or less reliant, if you will, on price as the key element. Right now, the firm is a better incremental buyer of retail deposits and the numbers that we're suggesting as rules of thumb about how [inside] [ph] the funding cost of wholesale, these deposits come are largely predicated on where we currently are in terms of price. But we will be able to lower beta as and to the extent we put on greater functionality, greater stickiness, greater privity with those depositors. But this is a conservative estimate in the context of I think what we're capable of growing and for that matter, whether there won't be other jurisdictions that we eventually look at.

Operator

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

Matt O'Connor

I was just wondering if you could comment on why the review has taken so long. It's not necessarily a bad thing, I appreciate you're being thorough, comprehensive and you're obviously not standing still while the processes is underway. But it does seem like a long time to wait until the first quarter of next year. I was just wondering if you could comment on that.

David Solomon

And I will start by saying that as we're moving forward on our reviews we're doing it in a way where certainly there is a lot of urgency to make progress.

We're also trying to make sure as we move forward and we have things that we can say that bring more transparency and what we're doing to you that we're doing at, and hopefully you feel that today's presentation is another example of this. But we also recognize that as we do this, we want to get it right, we want to be clear, we want to make sure that people in our organization can put it forward with respect to their businesses where the kinds of investments we're making over multiple years, or things that we can really stand behind as we work toward targets, which is something that we haven't done before, we want to make sure that we're getting them right. And so this is something that we feel we can execute on in the highest caliber way and be comfortable that we're moving forward. And from our perspective is a management team, we're looking to build value over the next three to five years, not over the next couple of quarters. And so we're trying to balance the fact that you all want more quicker and we understand that, but we're going to make sure we do it in the highest quality way we can. And we think this is the right time period and right approach for us to execute flawlessly.

Matt O'Connor

And then I know there have been some speculation recently in media that you might be doing an Investor Day this year, I assume that would not happen this year and might be on the table first quarter next year?

Stephen Scherr

I think that the form and substance of what we will do, we'll decide as we get closer. I would point just to key off of David's comments. There is no intention here for us to go dark between now and then. In fact, as David said, we're going to engage in a very regular cadence and you're seeing it already obviously in the context of the presentation that we're putting in front of you. And in the interim period, performance targets will be on the offing and we will review whether financial disclosure needs to change in the context of the change in shape and profile of our business and our organizational structure. And so I think all of that will put us in a place where we have a cleaner and more forward looking lens through which we and you look at our business. And whether that takes the form of Investor Day or some other form for a comprehensive update, we'll engage in that.

Operator

Our next question is from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

So understanding that the review is ongoing. But Stephen I think you spoke in your prepared remarks about focus on the FIC business. You highlighted a small example within the commodities business. So what I thought might be interesting is to hear, or may be you provide a little bit more incremental color to help us frame what kind of an impact on the expense and capital in commodities you all discover and help us to think about how that might inform, considering the full impact or a broader impact to FIC at least from an early indication.

Stephen Scherr

Sure. I would say the following. As a general matter, we are looking to make changes in the way in which we're engaging in FIC, all with an eye toward generating considering more revenue for the division and at the same time, optimizing to the deployment of capital and reducing down expense. On the revenue side, particularly in commodities but through elsewhere around the division, we want to meet our clients where they want to execute. And in commodities, equally in credit, equally across FX, we are seeing the opportunity to engage more substantially in low-touch client engagement around systematic market makers. It means we need to develop those platforms in order to do it. Those will inevitably be lower costs in the context of per-trade cost and engagement. All the while, we are looking at areas where we can reduce down the capital intensity.

There are obviously some trades that have been put on historically that have long-lived capital consumption. We look at areas where we can reduce those. But honestly in the context of making those assessments, shareholders value is front and center, which is I'm not going to look to release capital out of those trades to the extent that exercise is dilutive to shareholders value. We'll do it where it's accretive. I would also say that if you look across all of the businesses within FIC, each of them has their own orientation and the work we're doing both to generate capital, consume less capital and equally be more efficient in terms of expense. So for example, the Europe business has been in the bank, it benefits from lower cost funding that sits in the bank and we're looking at ways in which we can be more efficient in the deployment of capital. In FX, we're looking to put more of that business in the bank so as to avail it-self of diversified funding.

We're redoubling our efforts in commodities around businesses, which exhibit the low touch client platforms where clients want to engage. We're looking at capital consumption in mortgages. We're looking at electronic platforms with shorten our risk within credit. All of these are examples where we're driving to lower cost, lower capital consumption. And as we get through this review, we'll be in a position to give you a sense of how to quantify that.

Brennan Hawken

And then a more broad question on the consumer efforts. I know that you can't really get into the details on the Apple card at this point, because it's not public. But when you guys initially talked about, or I guess I should say when Goldman initially talked about the consumer efforts, the idea was as a disrupter to establish players. And then I guess when we saw the card announcement, understanding that there is innovation embedded, card generally is viewed as lot more of a need to lending product. So can you, at a high level, frame how we should think about the consumer business and whether or not disrupter is still the right way to think about it, or growing a little bit more in line with establish players? And then in card specifically, tends to be a scale business. How should we think about this at Goldman over the coming years? How many partnerships do you want to ultimately have? Is this going to be a co-brand approach where competition is higher but stickiness better? Maybe some high level comments to help us think about that, going forward. Thanks.

Stephen Scherr

So I think judgments as to how disruptive the card will be, I think will be in the aisle of the holder once we launch it publically. And I think what you will find is a level of innovation that Apple is known for and that Goldman Sachs, as an innovator with some technology edge. And as David had said, the absence of legacy technology and importantly the absence of a legacy business will enable us to be and has enabled us to be innovative along with Apple as a partner. So I think you will see those and make your judgment at the time. But I think ingredient to us being disruptive is, as David laid out early in his prepared remarks, which is no incumbent business, no legacy technology, all of which lens to being more disruptive in a broad sense.

I think just wide now beyond the card to the broader consumer business that has been our intent all along, which is we're looking to build one coherent business, that is Marcus. There are verity of products, we started with a verity of projects. In each of them, we have looked at and looked for markets that are big where we don't need to capture commanding market share to be relevant. We've also looked at markets and at products where there were pain-points felt by the consumer. We've done that I think successfully but early in loans and now we're aiming to do that in the card space. And I think those are the mileposts that you should look for in the context of where we can be disruptive.

Finally, on your question of scale, I would say that scale as an objective is now playing out across the whole of the firm. We build scale in Marcus in our underwriting algorithms and platforms and in our delivery, not just to scale cards and deposits but now equally with respect to credit cards. And I think that orientation is a benefit to us in terms of how we build. I'd also say that the technology is useful in the context of other things that we're doing like corporate cash management. And so that's the general direction of traffic for the consumer business. But I think it reflects more broadly on the overall firm as David laid out in the presentation.

Operator

Our next question is from the line of Michael Mayo with Wells Fargo Securities. Please go ahead.

Michael Mayo

Just in terms of delivering one firm, I think its pretty clear on the wholesale side but less so on the consumer side. And I know your intention is to change single-product relationships to multi-product relationships overtime. How long would that take? Is it one year, three years, five years, 10 year, because right now, it seems like single-product offerings, whether the upcoming credit card or deposits or loans. Thanks.

Stephen Scherr

You know from the beginning, our ambition here was to grow out a business, a common platform with multiple products, some we own, some we don't. And that's a process. We began obviously with two products, that being deposits and loans. But you need to begin somewhere and that's where we began. But we're now beginning to pull all of this together in the context of a common business and platform. And so I will give you an example of the delivery of the whole firm. In a very narrow context within consumer, we're already seeing the benefits of Clarity Money, which is bring integrated into the whole of the consumer effort. And so the take up of deposit account openings off of those who use Clarity Money is higher than what we had expected and what you might see in the industry, equally in the contest and the category of delivering the firm in consumer.

Make no mistake that bring together Marcus with our investment management division had a strategic component to it, which was we were a business that for many, many years obviously managed funds and managed asset for high net worth individuals. Bringing that DNA to bear as to how we will roll out a mass affluent platform is very real and has synergistic effect in terms of bringing those businesses together. And I'd also add that in the build of the mass affluent wealth business, the notion of having GSAM as the factory floor for products that we could offer is yet another example bringing all of Goldman Sachs to bear in the consumer space where there might be some doubt as to whether or not that had potential.

Michael Mayo

And then one I guess unrelated follow up. 1MDB, it seems like there is a very big bid-ask spead. Malaysia talking about $7 billion and I guess you've reserved less than $1 billion. And I know the investigation is onging, I know you can't interfere with the DoJ process. Having said that, what is there that you can do to facilitate the process? It seems like from what I can tell, Malaysia would like to have some resolution, you would like to have some resolution. Its a matter of coming up with some settlement. What are the obstetrical? What's under your control? Thanks.

David Solomon

So, first I would just say that nobody wants to get to resolution on this faster than we do. And we are absolutely committed to doing everything that we can to move the process along as quickly as possible. I think all I can say at this point is that the firm using its resources and what is available to us is working diligently and with urgency to reach a resolution. There are processes that exit in the process here and the process in Malaysia, they take more time than we necessarily as business people just doing a deal would like to see even through. But we're working at it and we'll reach resolution as quickly as possible. And unfortunately I'm just not in a position to give you more clarity on what I think that timing look like.

Operator

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

Devin Ryan

So first question here just on the mass affluent opportunity within Marcus, Ayco and other firm had corporate relationships, seem to provide a very strong customer acquisition channel. But I would think that you would also want to make sure that the platform is developed enough to get traction with those relationships. So I'm just trying to get little bit sense of the role out plan or timing of really going deeper into all those strong relationships. And whether this is already occurring or if you need more pieces to the puzzle of the platform and to trying to get a sense of timing here is as it's all coming together in real time?

Stephen Scherr

So on the development as the mass affluent business, I would say we are in the midpoint of the development plans in developing a blueprint as to how to go about this. I think what we've seen based on other efforts in this space is that this likely will be some mixed approach in the context of both technology and human engagement. I think that what's very clear to us is that place of work as a point of wealth aggregation is an interesting entry point in terms of gaining share and gaining position with perspective customers of this. Our view on the Ayco business is that we have in-house, as you suggest, a very real inconsequential business that for a long while had focused on the C-suite of very large corporations and has done an exceptionally good job in engaging there.

But I think that looking beyond the C-suite to several thousand employees that exist within a place of the employee and the ability to develop the business introduction that Ayco has carries enormous potential. And we're already seeing, for example, ways in which Ayco has been involved with a variety of companies in managing their wealth in the corporate sense, including discussions we've had and have been public about with respect to Google. So the take up in the place of work I think is an opportune place to engage. I'd also say that going back to the question that was raised earlier, looking at the range of different businesses, whether its savings or the loans business, or Clarity Money, are all entrées and ingredients to generate momentum into a business. But Ayco is going to be a very significant entry point, because when you look at these consumer businesses, obviously, customer acquisition is a sticky cell in the model and solving for that is important. And I think we've got the early makings of where our entry point into that business can be.

Devin Ryan

And just a follow up here just around the plan to move 7,500 people from operations and engineering and specific businesses, I'm curious the individuals are already focusing on those businesses or was this just more of a geographic change just to better allocate expenses and their contribution? Or people actually going to become more focused in terms of what they do? And then I'm just trying to think about what the implications are from either earnings, returns or anything else for you can remind there.

Stephen Scherr

So I think this is largely about moving people who have an existing focus on that particular business. And the idea here is that we want to bring them closer to the front end of the business, such that where there are platforms or where there are processing issues that otherwise were call out to a separate division. This is now being done within the control of the business in house. Now whether or not that leads into greater cost efficiency and the like remains to be seen, but that's the objective. The objective is to put more control into the hands of the business to do it. I should also point out that there are certain aspects of engineering and of operations that are not going to move to the businesses, and that's in the control space. So people who are involved, for example in the movement of funds in or out of the firm, that's not going to move to a division. It's going to move -- it's going to stay square within my remit in the control sense.

I'd also point out that the overarching objective of moving these people into the businesses is really to improve the client experience that our clients and customers have with those businesses. If you look at the securities business, in particular and you look at the engagement that customers have had with us, it used to be entirely front end human intensive the sales person mattered and perhaps that was the person all that mattered. And this is changing. The way in which we look at overall trade flow from the beginning through to the middle and in the context of collateral management through to settlement, the place of operations in that chain now matters more than it's ever mattered in the past in the context of our engagement and the question of customer satisfaction and client satisfaction with the business. And in the early days of repositioning these people into, in this case, the securities division I think has paid considerable reward in terms of the satisfaction and the greater take on business that our business is capable of harvesting.

Operator

Our next question is from the line of Gerard Cassidy with RBC. Please go ahead.

Gerard Cassidy

David, you mentioned in the strategic review that you are looking to build value over the next three to five years. When we compare your business, specifically markets in Investment Banking as a percentage of revenue, it's obviously quite a bit higher than some of your peers like JP Morgan, Citigroup and Bank of America. Should investors expect that as a result of the review that those two businesses as a percentage of total revenue should flow closer to those competitors or will those still remain elevated?

Stephen Scherr

I think that you have to expect if you just look at the size and the scale of their more traditional banking operations and their consumer banking operation, it's going be more elevated than their businesses. But we're committed, as we had products and services and diversified in what we're doing to continue to expand and shift the make-up to a degree where we think it will continue to fall. But I don't think we can have any expectation that when you look at our footprint and the footprint of those big, for lack of a better term universal bank competitors that we're heading anywhere close to that direction quickly.

Operator

Your next question is from line of Marty Mosby with Vining Sparks.

Marty Mosby

Two questions, one on NII. It now represents about 45% of your investing and lending revenues. And if you look at the growth rate of it, it's going to continue to push higher and it's much more sustainable in some of gains that you get in and out any the quarter in the other part of the business. Any thought about separating that out and calling at something else as you're building out the banking part of the business?

Stephen Scherr

Well, as I said at the start. Over the course of the next several months, we're going to take a long hard look at ways in which we can enhance disclosure, so as to meet the changing profile of our business and organization. And so we'll do our best. And as I said on the prior call, investing and lending is a bit of a challenge in the context of the forward view and where all of you have insight. And so we'll do we can to improve. What I will say in the context of the NII is that we paced last year at about $2.7 billion this year based on the quarter, we're looking at something closer to $3.3 billion. I will say that the economic consequence of that lending to the firm is greater than what that number indicates.

This is all franchise adjacent lending. It matters and is accretive to our PWM business. It matters and is accretive to our Investment Banking business. And so this lending is with clients and customers that we know well and has a tie into a series of linkages and adjacencies all-in throughout the firm. I would also point out that from a risk point of view, we continue to watch this obviously, in the context of the cycle and where we are. And to that end, we remain close to 85% secured in the context of this overall book. And so we're pleased with the direction of traffic here and we'll do our best to make sure that we put reporting around it that meets everybody's needs.

Operator

Our next question is from the line of Al Alevizakos with HSBC. Please go ahead.

Al Alevizakos

So you've mentioned plenty of times that you're consider yourself a technology firm. And clearly, you have embarked in a plethora of exciting new ventures. So in my view likely we can already see some of the amount of money that you put and the P&L impact for increased technology and amortization. However, at the same time, you remain one of the few U.S. players not to give out an explicit IT budget figure, or at least provide us with a split between the run the bank and change the bank IT spending. Would you be able to provide either number this time around? Thank you.

Stephen Scherr

So we will over time look to give you greater insight into the overall spend and the cost of spend in the disclosure that we will give you. I would say that we are investing, as you rightly point out, a considerable amount of money both in the run the bank and the change of bank. The run the bank is in the context of the introduction of platforms and the development of, for example, an institutional digital platform like Marquee. Whereas I said in my comments, this has the potential to create considerable stickiness and the use by customers and clients on an API basis of that platform where they consume content and data and ultimately look to trade with us. And so we're spending money in a platform like this. I'd also say that in Marcus we have given out some numbers around that. So at the end of '18, we had spent roughly about $1 billion in that. We're now at about $1.1 billion that as it relates to all of the consumer initiatives that are at play. But we aim to be more disclosive going forward in terms of the overall context of disclosure around our investment spend in these various technologies.

Operator

Our next question is from the line of Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

I just have one question that was on the IB backlog. If you could just walk through some of what was the driver and the drop quarter-on-quarter? And now that you're into more certain about macro environment without the government shutdown and all that, would you expect it to increase from here? Thanks.

Stephen Scherr

So the decrease in the overall backlog was largely a reflection of the bookings in the quarter in connection with M&A activity that was close and ultimately fees booked. And obviously that moves just mechanically out of backlog and into the P&L. We continue to see, as David had suggested earlier, a fairly consistent and robust level of dialogue on future M&A activity, which is buoyed both by where asset prices are, the continued attractiveness of financing. And so our expectation is that we would see that backlog rebuild in the context of it. I would point out that within the backlog we saw an uptick in the backlog in equities, so this is IPO related activity.

And I spoke probably about our expectation in the quarter for a number of big tech IPOs to come. And so that backlog tends to fluctuate depending upon bookings, but we feel pretty good in terms of direction of traffic of the business itself. The one other thing I would say just on backlog is that, on an historical basis, it still remains very, very high for the business overall. And so I think that while we often look at quarter-to-quarter movement in the backlog, it's equally important to pull the lens out a bit and just at it historically.

Operator

Your next question is from the line of Andrew Lim with Societe Generale. Please go ahead.

Andrew Lim

Thanks for taking my questions, and I appreciate very much the extra disclosure that you've given. But I'm still struggling to understand some trends, especially in I&L, so on the equity side for four quarter now, we have had declining I&L net revenues. I was wondering if you could give some color on the main drivers behind that. And I'm trying to square that with the carrying value of the portfolio versus the market value with respect to private equity. And then I'll just give you my follow on question in I&L as well on the debt security side. You've had this really big 30% increase in net interest income over the course of the year. I was wondering if you could give some color as to how that improvement that's come about through and expansion in asset yields versus an expansion and liability yields that you saw at your wholesale funding for customer deposits. And how we might expect that to improve going forward as you continue to raise customer deposits, let's assume that asset yield stay flat going forward just for the sake of argument, if you continue to raise customer deposits. How can we expect that $8 million to $35 million to increase over coming quarters?

Stephen Scherr

So let me take your two questions if you don't mind in the inverse. I will start with the second one, which is on the debt I&L, and the growth in net interest income. Consistent with my response to the question earlier, you should consider seeing that continue to grow. As I mentioned earlier, client adjacent lending that serves a number of different businesses around the firm. And I think that the margin that we will see on that lending will only improve to the extent that we further diversify as we have laid-out as a strategic priority the overall funding mix of the firm. And so as and to the extent that we engage in this lending through the bank, we can avail ourselves of lower cost funding provided by retail deposits, which were obviously growing as I've had mentioned now several times in the call.

So I think you'll see NII increase. It will increase both in terms of volume by virtue of the adjacencies that it poses to the firm and equally the margin will increase to the extent that we avail ourselves of lower cost funding. On the first part of your question about the equity I&L, again it's important to understand that as you see on the chart, this is a portfolio that skews demonstrably toward private equity and not public. And as that trend line has happened, you see less price action by virtue of the public equity markets than you otherwise would. Where we hold public equity is obviously those are marked and priced relative to where the observable public price is on that particular equity. In private equity positions, this doesn't always run and skew and hone relative to public market prices. So this is very event driven. You may see up or down movement in the private equity portfolio occasioned by some event where we might sell a possible. It might be that there is another round of equity investing at a different valuation level that causes us to remark that. There may be performance that proves positive in a given company that causes us to remark that position. So it's very event driven. It doesn't necessarily hone to what you see in terms of public equity prices. And as a consequence, it can be high or low in any given quarter and not necessarily correlating to public price movement.

Operator

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

Stephen Scherr

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