Slide 3:

Thanks, Matt. Today I’d like to give a brief overview of the firm and each of our businesses. Then, I’ll drill down on the business seen as facing the most headwinds: Institutional Client Services. As I’ll discuss, the current low growth and low rate environment has been challenging for some of our businesses, while it’s been benefiting many other businesses.

Let’s start with an overview of our two largely fee-based businesses: Investment Banking and Investment Management. These businesses have grown over the past four years, increasing their contribution to firmwide revenue by 9 percentage points, reaching nearly 40% of revenue last year.

Turning to Investment Banking, we maintain a leading global M&A and Equity underwriting franchise. Our goal in M&A is twofold: to provide our clients with best-in-class advice, and to maximize our share of the largest and most strategic transactions. Although market volatility reduced M&A activity earlier this year, a low growth and low rate environment remains supportive of M&A, and should drive clients to transact.

Moving to Equity Underwriting, capital markets have started to re-open a bit after a period of substantially lower activity. We remain positive on the long-term outlook for our Equity Underwriting franchise. If markets continue to be relatively stable, we expect to see more client demand in equity capital markets.

Moving to Debt Underwriting, we have seen a notable improvement in our market share. For example, we are now ranked fifth in Investment Grade, up four spots since 2011. Our strong Advisory franchise boosts our Debt Underwriting business and provides us with unique debt financing opportunities.

Shifting gears to Investment Management, our franchise is unique because we are one of a few large global providers of a diverse set of products and services. Our holistic product offering ranges from asset and liability management for our private wealth clients, to fund products across all asset classes, to tailored advisory solutions.

We continue to expand our franchise and finished the first quarter with record assets under supervision of $1.3 trillion. Over the past three years, we’ve had great success growing our assets under supervision; we have produced $150 billion in organic active net long-term inflows, which is among the best performances in the industry. Going forward, we expect to build our recent momentum by providing clients with comprehensive advice, thought leadership, and innovative products that help them meet their investing demands.
Slide 4:

Next I’d like to talk about our Investing and Lending segment. I’m not going to spend a lot of time here given that Harvey discussed this segment in detail last November.

We report the I&L segment separately to provide you with more transparent disclosures. But, we think I&L should not be viewed as a standalone business; instead, it should be seen as a collection of activities that are synergistic with other franchises, helping us to expand our client relationships.

Our I&L results show our efforts to diversify our franchise. For example, we continue to grow our diversified lending portfolio to serve our private wealth and corporate clients in ways that are accretive to the firm. At the end of the first quarter, we had almost $65 billion in loans, which represents an increase of more than twofold since the end of 2012. We also continue to evolve our equity investing to meet the needs of our clients to generate attractive returns, while complying with Volcker requirements.

On the lending side, we will continue to pursue opportunities that are accretive to the firm by leveraging our technology, our history of building businesses, and our lack of legacy costs associated with brick and mortar businesses.

With that high level overview, I’d like to dedicate the rest of the time to our market-making franchise. This is important given the challenging environment we’ve seen recently, and the significant change underway in the industry. I will discuss what we have been doing strategically to navigate the difficult operating environment:

First, we continue to be disciplined with our resources, both from a capital and cost perspective. Second, we are focused on strengthening and growing our client franchise, particularly with asset managers and corporates. Third, we have continued to invest in technology, which will allow us to efficiently deliver the best products to our clients.

Slide 5:

ICS is a core part of our client value proposition. The business provides significant synergies across our other client franchises, most directly with our Investment Banking division. Our market making business is differentiated because we have a strong client franchise in both Equities and FICC, which are roughly equal in size. What’s more, both FICC and Equities benefit from significant business-level diversification. As a result, we can deliver the totality of our perspectives and capabilities across various products and geographies to our clients.

FICC is comprised of five business segments, and each has made a significant contribution to ICS revenue over the last five years. While our franchise is strong, the current low growth and low rate environment has negatively impacted our clients’ performance and our own opportunity set. Most recently, we also faced challenges managing inventory to facilitate client transactions.
Within Equities, we have a comprehensive product suite that is well-balanced between our agency commissions business and our client execution franchise. We also have a leading Securities Services business that has contributed roughly ten percent of ICS net revenues over the past five years.

Slide 6:

Within ICS we serve a diverse array of clients globally. These include asset managers, hedge funds, banks and broker dealers, corporates, pensions, governments and central banks.

On this slide we show recent client trends. One overarching theme has been a shift in client preference to more plain vanilla products from structured transactions. That said, client activity in structured transactions has fluctuated over the last few years based on the market environment.

Another trend over the last five years has been the shifting composition of our client base. Global active managers have struggled to produce alpha and increase assets under management, while passive products have grown.

Corporations have continued to need our help to mitigate the numerous risks they face in foreign exchange, rates, commodities and equities. Hedge funds and alternative investors have faced weak performance and flat assets under management. Our government and pension fund clients have been less active given the low global rate environment. Finally, activity with banks and broker dealers has also been negatively affected, which shouldn’t be surprising given the new regulatory constraints.

Going forward, we continue to concentrate on serving the needs of all of these clients. We have launched initiatives to further our historical strength with hedge funds, banks as well as broker dealers. We are also focused on broadening our client base. We are leveraging our strong Investment Banking relationships to strengthen our positioning with corporates, and we have increased our dedicated sales coverage for asset managers. Our efforts are gaining traction, with a 12% increase in our active corporate and asset manager clients over the past five years – and there’s still more we can do from here.

Slide 7:

While our core goal is to meet the needs of our clients, we are also focused on maximizing returns to our shareholders. Since posting record ICS net revenue in 2009, there has been significant focus on both the size of our market making business and our market share. However, it is important to remember that not all revenue drives good returns.
To illustrate this point, let me walk you through the chart on the slide. We show the average firm return on equity on the X-axis, and the size of average market-making revenue over the past five years on the Y-axis. The size of each bubble represents the proportion of the firm’s revenue that comes from market-making. As you can see, the dollar size of market-making revenue and the percentage of firmwide revenue derived from market making are not highly correlated to a firm’s ability to generate strong returns.

So while we could increase our market making revenue, it may not translate into better returns. Instead, we are focused on maximizing our returns, which I will discuss in the context of the decision-making framework we use to optimize our business.

**Slide 8:**

We think about resource allocation and decision-making through multiple lenses at both the business and transactional levels. We think about numerous factors, such as: potential returns, both near-term and long-term, the level of client engagement, reputational risk, operational requirements, and financial risk.

Over time, this framework has driven significant change throughout the firm and has led us to exit certain businesses, while adapting and investing in others. While returns are important, there are other factors that we also consider in our assessment. Our business decisions aren’t binary and management judgment is crucial. We look at every transaction in the context of our broader client relationships – our goal is to build strong, enduring relationships over time. Additionally, operational and reputational risks are critical considerations when we evaluate new business opportunities. Lastly, on returns, Harvey has discussed our capital tools with you in the past, so I won’t go into greater detail here.

Next, let me walk through some recent examples to highlight how our decision-making framework has helped us to adapt our franchise. Take prime brokerage, for example. New leverage rules significantly increased the cost of our balance sheet. We responded by engaging with our clients, ensuring they received appropriate service, while also reducing low ROA assets. After adapting the business, and given the exit of some competitors, we’ve picked up balances and market share.

We are also adjusting our Credit and Mortgage businesses to respond to changing market structure, reduced market liquidity and new regulatory requirements. As capital requirements have increased for these businesses, we have responded by reducing inventory, which should help us to improve returns going forward.

As these examples show, we are modifying our business mix to optimize our revenue and returns. At the same time, we remain committed to maintaining our ability to serve our clients across our broad product offering.
Clearly, the operating environment has been difficult, but we’re adapting as a result. While we seem unique in our stated commitment to our clients across FICC and Equities, that doesn’t mean we are not extremely disciplined with our resources. We have cut our balance sheet, risk weighted assets and expenses.

Since the second-quarter of 2013, our market making balance sheet is down 25%, our FICC credit and market risk-weighted-assets are down roughly 30%, and we have aggressively managed our expenses. FICC headcount is down about 10% since the beginning of 2012 through year-end 2015; FICC compensation expense is down more than twice that rate over the same period of time. We’ve also actively managed the mix of our employees over the last few years.

While we continue to be disciplined about our resources, it’s important to remember that FICC operating margins remain quite high, and our business is positioned to provide significant operating leverage when the backdrop improves. It’s also important to be balanced. We haven’t shied away from the tough decisions, but we also haven’t cut so deeply that we can’t serve our clients.

We have faced macroeconomic and other challenges, and have actively adapted our franchise as a result. Nevertheless, we have seen long-term positives for our business.

First, client needs remain intact, which is the most important long-term driver of our business. Clients highly value our ability to provide liquidity, asset-liability management, advice, intellectual capital, and risk management solutions.

Second, global GDP continues to grow, albeit at a slower rate than many would like, and so does the size of the capital markets. In fact, over the past 15 years, global GDP, global equity markets and the US bond market have doubled in size.

Third, we think competitor retrenchment provides a key opportunity for us to solidify and expand our client relationships. We are optimistic about our positioning in FICC as many competitors shift their strategies. Competitors are picking and choosing the niches where they believe they can compete. But, we are working to deliver the whole firm across a broad range of products and services. This creates opportunities to strengthen our position with our existing clients. Importantly, it also creates opportunities to build new client relationships.

While broker rankings and votes are an entrenched practice in our Equities business, we are only now starting to get more client feedback in FICC. As a result, we are increasingly focused on the granularity of where we rank with our clients and the pathway to improving our impact with them. While it’s quite early, our strategy is starting to bear fruit – we’ve observed a recent improvement in client engagement,
particularly in flow products in FICC. We believe the recent momentum in our franchise will lay the groundwork for our future success.

**Slide 11:**

In addition to capitalizing on disruption in the competitive landscape, we continue to embrace technologically-driven market disruption. As you know, there has been a tremendous rise in electronification in the financial markets over the last two decades. Equities was one of the first products to evolve, with new regulations like Reg NMS and decimalization. Electronic trading in cash equities was just emerging in the early 2000’s. Now the market is predominantly electronic.

We invested in technology in response to feedback from our clients and adapted early to the electronic market in Equities. While we’ve steadily invested in our electronic capabilities in Equities over time, we are always looking to strengthen our product offering.

We recently acquired Pantor, which is an enhanced electronic trading platform, so we can better serve our quantitative asset manager and index fund clients. We aim to provide these clients better execution and lower transaction costs. Pantor should start to benefit our franchise in the back half of this year. While electronification has been unfolding in Equities for some time, we have also seen an electronic evolution across certain FICC products, with regulation helping to accelerate this shift.

In the future, we expect fewer voice trades and more automatic pricing and execution. This slide shows growth in electronic volumes across a variety of products, with higher growth rates in fixed income products where electronic trading continues to evolve, and lower volume growth in more mature electronic markets.

Historically, we’ve adapted to these changes within each of our FICC businesses and managed separate electronic books across Foreign Exchange, Commodities, Credit and Rates. Now we are consolidating our efforts so we can more efficiently allocate our resources and better meet our clients’ needs.

**Slide 12:**

In conclusion, we’ve been managing our business aggressively in response to the difficult operating environment. Our goals are relatively straightforward: to serve our clients well by delivering the products and services they need across our broad franchise, to selectively grow our footprint, to continue to be disciplined about protecting our margins, and to deliver accretive returns to our shareholders.

This is our strategy in our market making business, and it is the same strategy we employ for the firm as a whole. With respect to the current challenging operating environment, there are a number of strategic options we can pursue to further improve
our performance. We can invest in our current businesses, we can shrink parts of our business that are underperforming, and we can adapt and change our business mix by capturing new growth opportunities. We are doing all of these. We are simultaneously remaining committed to meeting the needs of our clients and delivering superior returns to our shareholders over the long-term.

With that, Matt, I’m happy to take your questions.