Goldman Sachs Presentation to
Bernstein Strategic Decisions Conference
Comments by Gary Cohn, President and Chief Operating Officer
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Thanks Brad, and good morning to everyone.

The operating environment following the financial crisis has clearly created challenges to profitability for our industry. Post crisis returns are down by more than 10 percentage points, naturally leading investors to question normalized return potential.

As an organization, we share our investors' keen focus on returns. Throughout the cycle, our goal is to outperform the peer group returns and grow book value per share. We look to achieve these goals while maintaining a conservative financial profile. There are two key components to achieving this. First, if we can not find good opportunities to generate strong risk adjusted returns, we are committed to returning excess capital to shareholders over time. Secondly, we will continue our longstanding policy of paying for performance, as it strongly aligns the interest of our employees with those of our shareholders. We believe that adhering to these principles has been an important driver of our performance.

However, we all know that financial services is a cyclical industry, and priorities need to be adjusted depending on the stage of the operating cycle. At the top of the cycle, we look to capture revenue upside in the marketplace, deliver operating leverage to our shareholders and invest in our business to expand the client franchise.

In more challenging environments, where we remain today, we look to protect the client franchise, and be diligent about our resource allocation with respect to both capital and expenses.

As a result, we were able to achieve a 10.7% ROE in 2012. We are focused on positioning the firm to further expand our ROE and to be well placed to generate operating leverage and industry leading returns as the operating environment improves.

While we don't have visibility into the timing or velocity of an improved environment, we do want to elaborate on opportunities we see to drive returns higher over the medium term.

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As we discussed together last year, we are focused on the three primary drivers of our returns: revenues, expenses and capital management

More recently we have spent a lot of time talking about our capital management and expense discipline. Before we delve into revenue opportunities, let's briefly review our approach to capital and expenses.

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On capital, we have been able to balance returning capital to our shareholders with maintaining a conservative credit profile.

During 2010 to 2012, we were able to return $14.8 billion of capital, representing 85% of earnings. Our share buybacks also helped lower our shares outstanding by roughly 10% or 50 million shares.

Nevertheless, maintaining a conservative financial position is our primary focus. We believe that it not only provides protection against market disruptions and unforeseen events, but also positions the firm to serve our clients when they need us most. One example of our continued efforts to enhance our financial positioning is the increase in our estimated Basel 3 Tier 1 Common ratio. It is up about 100 basis points from the end of 2011 to approximately 9% in the first quarter of 2013.

During a recent conference presentation, Harvey spent a lot of time explaining our capital efficiency efforts, and the tools we are building to manage the balance sheet under Basel 3. Those efforts continue, and we feel very good about the progress we've made and the benefit these efforts will provide.

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On the expense side, following a solid first quarter in 2011, we announced a $1.2 billion expense savings initiative. We ultimately increased the size of that to $1.9 billion in 2012.

Our focus on operational efficiency allowed us to deliver our second lowest compensation ratio as a public company in 2012. In addition, our comp ratio over the past three years is nearly 850 basis points lower than pre-crisis levels and has benefited returns by almost 300 basis points.

We will continue to be focused on responsibly managing both financial and human resources. And clearly, if the operating environment remains sluggish we will take additional steps to protect shareholders' long term returns.

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Today I want to focus on four broad areas where we expect to drive revenue opportunities over the next few years. These include client confidence, risk appetite, market and business development and competitive dynamics

Before we discuss these opportunities, I should reiterate that GDP growth is the most fundamental driver of our long-term opportunity set.

History would indicate that as GDP grows client confidence and activity levels improve, investment levels and asset prices tend to rise, and we experience a multiplier effect within our business.

The power of that multiplier effect is important to remember. Over the past 10 years, our regional revenue has grown approximately 1.5 times the region's corresponding economic growth rate.

Although we have seen recent improvements in the US economy, growth is relatively light and confidence remains fragile. In addition, while the market generally feels better about the tail risk in Europe, the economy is challenged.

Given the continued uncertainty in the market, we are not managing the firm with the hope that the macro backdrop will improve. We are focused on managing through a continued difficult operating environment. These opportunities we are discussing today reflect trends that don't necessarily require a significant rebound in the broader economic environment.

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Given the macro concerns discussed, the confidence of our corporate clients remains low and this has weighed on activity.

Global M&A volumes in 2013 represent approximately 4% of global market cap relative to the 20 year average of closer to 7%.

A similar dynamic is evident in equity capital markets. IPOs currently represent 20 basis points of global market cap, which is 50% lower than the 20 year average.

Activity has varied across the globe and we have started to see a meaningful pick up in the US new issue market.

To the extent the operating environment stabilizes and our clients feel more confident, we believe activity could revert to more normalized levels. If half of the gap was closed relative to 20 year average activity levels, M&A volumes could increase by approximately $700 billion and IPOs could increase by roughly $50 billion.

Importantly, these M&A and underwriting deals tend to drive interesting opportunities to further serve our clients, including risk management and hedging solutions. On the M&A side, we would also expect to see increased deal-related financings.

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One of the dynamics that will continue to impact client behavior globally is the low interest rate environment. This has been driven by significant central bank activity and unprecedented levels of quantitative easing.

These efforts have injected significant amounts of cash into the system and yields have declined substantially across asset classes.

As yields have compressed, investors have found it more difficult to generate desired returns. We believe this dynamic could continue to drive our investing clients' search for higher returning assets and increase their risk appetite.

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Immediately following the crisis, we saw clients reduce leverage and cut their risk profile.

Equity mutual funds in the United States saw 5 years of outflows totaling more than a half a trillion dollars through the end of 2012. Over that same time frame, US bond funds experienced over one trillion dollars of inflows.

As market participants have gotten comfortable taking more risk, US equity funds have seen inflows for the first time since 2007 with roughly $75 billion year to date.

To the extent risk appetite continues to improve, this could translate into higher levels of activity and a more profitable mix of business across both our institutional client services and investment management businesses.

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Continuing on the subject of business mix, we have started to see growth in structured products in response to an improving macro environment and our clients' demand for higher returns. US asset-backed securities issuance grew by 127% from 2010 to 2012. In addition, 2013 has gotten off to a strong start. Year-to-date, CMBS and CLO issuance represents nearly 70% and 60% of 2012 levels, respectively.

We currently have a leading position in CMBS origination. Our position in CLOs is still developing. Nevertheless, we view both as meaningful opportunities for our franchise.

We would point out that the increase in structured products has been focused on plain vanilla securitizations, and not the more complex and leveraged structures that we had seen in past years.

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Aside from an improvement in client confidence and risk appetite, we see a clear opportunity for new markets to drive longer-term growth.

Markets like China and Brazil have a significant portion of investable assets dedicated to deposit products. In China, more than 70% of investable assets are in deposits while the figure is closer to 60% in Brazil. This compares to the US where deposits represent less than 20% of investable assets.

If China and Brazil end up evolving similar to the US, we could see more than a $12 trillion transition over time to other asset classes providing opportunities to serve our global client franchise and support economic growth.

Given our expectation for healthy levels of economic growth, we anticipate that existing and new companies will continue to depend on the capital markets to finance their growth. As a leader in equity capital markets, we believe we are well positioned for these opportunities. In 2012, our franchise was ranked number 1 in Global Equity and Equity Related offerings and we have retained that leadership position so far in 2013.

We also see the development of the debt capital markets in China, Brazil and other high growth markets as an important long-term opportunity for the firm.

We've made investments in these and other regions with a long-term orientation. Today we have the right people in place, and continue to secure the necessary licenses. We feel very good about our ability to benefit as these capital markets develop.

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The European bond market remains a compelling long-term opportunity. We spoke last year about the shift we have started to see in European debt markets from loans to bonds.

This shift happened in the United States over many years. Loans contributed only 7% of US financing in 2012, down from 30% almost 50 years ago.

In Europe, we have seen bonds increase modestly over the past 13 years with the mix of issuance in 2012 up approximately 300 basis points compared to 1999. We expect this trend to continue given the general contraction of European banks' balance sheets.

This, coupled with our leading position in European High Yield in 2012, leaves us well placed to benefit from growth in this market.

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Moving to another longer term opportunity – the US housing market. Housing has been a critical component of the US economy for decades, contributing nearly 9% of GDP over the past 10 and 20 years.

The supply of credit has been somewhat constrained post crisis and capital markets issuance has been hampered. However, we remain confident that the issues will ultimately be addressed given the important role that housing plays in the US economy.

One of the challenges facing the housing market is that the level of issuance being guaranteed by the government is at record levels. Currently, nearly 90% of issuance is backed by the government compared to historical levels in the 50% range. In order for government support to revert back to more normalized levels, a significant financing and distribution opportunity exists for private label mortgages.

Second, the Federal Reserve currently owns $1 trillion of mortgage assets on its balance sheet or roughly 10% of the market. As the Fed changes its approach to monetary policy, private capital will need to fill the void and banks can help intermediate these flows.

On the Commercial side of the market, large maturities are coming in 2015, 2016 and 2017. We believe that financial institutions can support this market by lending or by securitizing the mortgages and distributing them to investors.

Finally, we continue to see European banks deleverage, particularly mortgage assets. We see an intermediation opportunity as we help our bank clients de-risk while providing our investing clients with longer-term yield potential.

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Our Investment Management business, which includes GSAM and PWM, is ranked among the top 10 asset management firms globally and has record assets under supervision of nearly $1 trillion.

Goldman Sachs is committed to growing and developing our business, and we continue to invest in talent, risk management, and technology. We also continue to pursue select strategic acquisitions and develop new products that strengthen our offerings to clients and respond to their changing needs.

Serving clients well begins with delivering consistent and strong relative investment performance, which is always our top priority.

Through continuous refinement of our investment process, we have delivered a substantial improvement in our client's returns. This has translated into 6 consecutive quarters of strong investment performance.

For our Mutual Funds globally: 81% of our client assets are in funds ranked in the top 2 quartiles over 1-year, 72% over 3-years and 56% over 5-years.

We also offer 178 global mutual fund share classes rated 4 or 5 stars.

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We still believe that the competitive landscape provides an interesting opportunity for our franchise. We have seen headcount reductions of more than 80,000 across our global peer group in 2011 and 2012. Five out of our eight key global competitors have also made significant restructuring announcements driven by increased regulation, higher capital requirements, and the challenging macro backdrop.

Given this group has collectively averaged almost $60 billion of core trading revenues over the past two years, you don't need a significant amount of retrenchment to create an important revenue opportunity for us.

While none of our global peers have announced plans to entirely exit key businesses, many are referencing a relatively significant degree of retrenchment in businesses like Commodities and less liquid parts of Credit and Rates.

In addition, we are seeing some competitors strengthen their native country presence while pulling out of more global businesses. As a result, we will likely see more cross border or cross European opportunities for our franchise.

And finally, given that returns for many have not exceeded their cost of capital, many market participants believe that some level of capacity is being removed on a more secular basis.

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At the end of the day, the onus is on the firm to take advantage of the opportunity set over the next few years. To do this, we have to leverage our leading client franchise businesses, and the diversity of opportunities that it provides.

Over the past three years, no one business activity has contributed more than 12% of net revenues. While FICC has been the most significant driver, it comprises 5 major global businesses. Each has contributed between 5 and 11% of firmwide net revenues on average over the past three years.

We have maintained our number 1 ranking in M&A and Equity and Equity Related offerings and have seen improvement in our debt underwriting business. We continue to be one of the most active market makers in Fixed Income, Currency, Commodity and Equity products globally in cash and derivative form. In our Investing and Lending segment, we have a strong track record of making long-term credit and equity investments and often co-invest with our clients. Finally, we have a top 10 asset manager that has been benefiting from improved investment performance.

Serving our clients in the most value-added fashion, and maximizing the flexibility embedded in other diverse operations, is central to maintaining our track record of superior returns.

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In conclusion, we are not running the firm under the assumption that the market environment will improve. While we do see many potential opportunities that could increase revenues and returns, we remain focused on managing the firm efficiently from both an expense and capital standpoint.

Our expense discipline and capital return have allowed us to generate meaningful operating leverage through the cycle while growing book value per share. As an example, revenues in 2012 were up 19% and pre-tax income was up 82%. In addition, book value per share grew 11%.

As shareholders, you should expect that we will continue to be intensely focused on costs and returning capital to shareholders given the challenging environment. We will continue to adjust and re-allocate resources to maximize efficiency as necessary. We have a culture of adaptability. We have a set of businesses, supported by our mark-to-market philosophy, that provide the flexibility to adjust to a changing opportunity set. And, we will rely on all of these principles to provide shareholders with superior returns.

With that, I would be happy to answer any questions.