

Company Name: Apollo Global  
 Company Ticker: APO US  
 Date: 2019-11-07  
 Event Description: Investor Day

Market Cap: 18642.2229833  
 Current PX: 42.57  
 YTD Change(\$): 18.03  
 YTD Change(%): 73.472

Bloomberg Estimates - EPS  
 Current Quarter: 0.719  
 Current Year: 2.312  
 Bloomberg Estimates - Sales  
 Current Quarter: 586.571  
 Current Year: 1893.875

## Investor Day

### Company Participants

- Gary Stein, Head of Investor Relations
- Leon Black, Founder, Chairman and Chief Executive Officer
- James Zelter, Co-President, Chief Investment Officer, Credit
- Scott Kleinman, Co-President
- Marc Rowan, Co-Founder Senior Managing Director
- Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer
- Matt Nord, Co-Lead Partner, Private Equity
- David Sambur, Co-Lead Partner, Private Equity
- Anthony Civale, Co-Chief Operating Officer
- John Zito, Co-Head of Global Corporate Credit
- Jim Belardi, Chairman & CEO
- Scott Weiner, Senior Partner, Head of Global CRE Debt, Chief Investment Officer
- Skardon Baker, Senior Partner, European Principal Finance
- Gernot Lohr, Senior Partner
- Gary Parr, Senior Managing Director
- Stephanie Drescher, Co-Chief Operating Officer, Lead Partner, CreditPicture
- Josh Harris, Co-Founder and Senior Managing Director
- Unidentified Speaker

### Other Participants

- Alex Blostein, Analyst
- Craig Siegenthaler, Analyst
- Patrick Davitt, Analyst
- Mike Carrier, Analyst
- Glenn Schorr, Analyst
- Brian Bedell, Analyst
- William Katz, Analyst
- Robert Lee, Analyst
- Unidentified Participant
- Colin Ducharme, Analyst
- Nicholas Tatsis, Analyst
- Gerald O'Hara, Analyst

### Presentation

#### Gary Stein, Head of Investor Relations

Good morning and welcome to Apollo's Investor Day. I'm Gary Stein, Head of Investor Relations. We're grateful for the tremendous turn out in the room here and we thank everyone who is joining us on the web cast as well. We have a great day planned for you, and we can't wait to get started.

We conducted an extensive Investor Relations survey this summer, talked to a number of shareholders. One of the most significant piece of the feedback we received was that you wanted more access to our senior management team. Well,

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we listened to you. And today, you're going to hear from 17 of our senior managers. It's going to be really action packed day and we're really excited to get started.

First, you're going to hear from Leon Black. He's going to talk about our business and our firm. Then you're going to hear from our Co-Presidents' Scott Kleinman and Jim Zelter, they'll talk a bit more about the business and our culture. You'll then hear from Marc Rowan, one of our Co-Founders and then you'll hear from a number of other senior leaders across the firm as they take you through our growth story. The day, we'll end with Josh Harris, our Co-Founder, who will make some closing remarks.

You can also see from the agenda that there'll be two opportunities to ask questions throughout the program. So we ask that you hold your questions until those Q&A periods.

On the screen, and also on your iPad's as well as on the webcast, as our disclosure statement, encourage you to read this carefully. No need to memorize it, but please read it carefully.

So we want to thank you for investing your time with us this morning. And with that let's get this started. I'd like to turn the stage over to Leon Black, our Founder, Chairman and Chief Executive Officer. Leon?

## Leon Black, Founder, Chairman and Chief Executive Officer

Good morning, everyone. Nice and early. Glad you're all here. We're very, very excited to welcome all of you to our 2019 Investor Day and share the Apollo's story with you. It's great to see many old friends and faces here. But after our recent C conversion, we're also very grateful that there are many new faces and long-only institutions who are here. So thank you for coming.

You're going to hear an awful lot today. It's I think a great story. But by way of introduction, I want to start with the conclusion, there are three takeaways from today's presentations, they are as follows. One, that the Apollo story is centered around a leading asset management firm, that rare bird, actually that's actually that's squarely sits atop the intersection of value, of growth and of yield. Secondly, we are highly, highly confident that our growth trajectory of the last five years is totally replicable over the next next years. We think we've created an outstanding global platform. And as you will hear throughout the day, we also believe Apollo is significantly undervalued.

As Gary noted, we've invested a significant amount of time in preparing for this day, because we want all of you to leave this event with the same level of enthusiasm that we all have for our business. I also want to thank everyone from Apollo who worked so hard to prepare for this event. It's been a tremendous undertaking. I hope that you will be as pleased as I am with the outcome.

Now as I mentioned, there is a lot to cover today. But before we get started, you should all know, that I've never been more excited about the prospects for the future. I said this at our last Investor Day five years ago, and I'll say it again. I truly believe that the best is yet to come for Apollo.

So throughout the day, you're going to hear why we are strategically well-positioned for continued growth in a variety of ways. First, we have delivered exceptional investment and financial performance for 30 years now. The firm is 30 years old. We've developed a differentiated model that enables us to successfully put capital to work across all market cycles. And across the best risk-reward levels of capital structures. Our investment prowess has translated into outstanding financial performance and the outstanding investment performance we have delivered to our clients has enabled us to continue to fund raise, to diversify and to grow our businesses.

Secondly, we benefit greatly from our integrated global platform. Since starting Apollo 30 years ago, we have operated with one wall around the entire firm. So there are no barriers between our various businesses. All aspects of our firm and all of our people around the globe are connected, which results in truly unique synergies. Importantly, at Apollo, the 500 or so investment professionals in all our different businesses and products and platforms talk to each other every day and have have a dialogue. This is a very unusual construct, and the lack of barriers means, our private equity can share ideas with our credit teams, who can share ideas with our real asset teams as well as all our sub-advisory

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insurance related businesses. No other firm of our scale has a truly integrated model. This is the hallmark of Apollo and is a key comparative advantage that helps drive best-in-class performance.

Third, our base of permanent capital is unrivaled among alternative asset managers. Over the last decade we have played an instrumental role in creating and building a variety of platforms that have raised significant amounts of permanent capital in areas such as insurance and direct lending. Today, we have significantly more permanent capital than all our peers.

Fourth, since Apollo's founding innovation has been a key driver of our growth and diversification, we are value-oriented contrarian investors and we have a willingness to embrace complexity. As a result, we have a proven ability to identify and capitalize on uncommon opportunities and we have created many new products around opportunities that we see in the market, both from a platform and a strategy perspective.

Five, as a result of our success, we have built an incredibly deep bench of talent. Our brand built over 30 years is synonymous with excellence and allows us to keep an intense focus on attracting, retaining developing and promoting a diverse and inclusive workforce, which we believe is the best and the brightest in our industry.

Now let's delve deeper into each of these themes. Owing to our great team and platform and coupled with powerful secular tailwinds that accrue to our benefit, we have been able to deliver truly remarkable growth since our last Investor Day in 2014. We've highlighted just a few of these key metrics that help to quantify the growth we've experienced. As many of you may remember at our last Investor Day, we told you we would reach \$250 billion to \$300 billion of AUM by the end of 2019. And I am very proud to note that we've exceeded the high-end of the range, growing AUM by nearly 100% over the last five years or 15% annually. This AUM growth is a direct result of our outstanding investment track record and successful product innovation. During the same time frame, the AUM in our permanent capital vehicles has nearly doubled to \$161 billion.

As Martin will describe in more detail later this morning, we've done more, we have more than doubled our fee-related earnings since our last Investor Day. This has been driven by the significant growth in our fee-paying assets including permanent capital coupled with our operating discipline. Our strong financial management and prudent approach towards managing expenses has enabled us to drive continued margin expansion, and our margins are now the highest in our industry.

At our core, we are in the investment management firm and performance is what matters the most. When we deliver outstanding returns, everyone wins, our fund investors, our shareholders and our employees. I'm often asked what I'm most proud of at Apollo, and the answer is on the screen, in front of you. It's our longstanding track record of investment excellence.

Turning to PE. First, I'd just like to note that this is a very significant asset class for our country. We -- it encompasses 9 million jobs, which is about 6% of the workforce. And it has now contributed \$1.1 trillion to GDP, which represents a little over 5% of GDP. We happen to have an extraordinary track record in private equity, where we've delivered 39% growth and 25% net IRRs over a 30-year period, which has also encompassed four different site business cycles during that 30 years.

Our funds have outperformed the top quartile of the private equity industry by some 600 basis points, and the whole industry by an average of a staggering 1,200 basis points over the same time period. We have also, I'm sorry, we also believe our value model takes less risk than our peers, as we are paying five multiple turns less in constructing our private equity portfolios, and we are also leveraging less by 2.5 multiple turns versus our peers.

Over the last decade, we've built the largest alternative credit business in the world, with more than \$200 billion of AUM that is invested across a diverse spectrum of more than 20 different strategies. Our credit business continues to outperform benchmarks with a return on average of 8% since 2010 in the yield starved environment. This may not seem like a big number when its positioned next to our PE returns, but when fixed income is delivering 2% and pension funds need 8% to keep pace with the growth of their liabilities, our investors appreciate the outsized returns we are able to deliver on a consistent downside protected basis.

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We have also successfully grown our permanent capital, which is the most stable and sticky kind of capital there is, nearly threefold to \$161 billion and now constitutes 50% of our AUM, far surpassing any of our peers in this regard. The permanent capital we manage, provides us with a distinct competitive advantage as it enables us to take a long-term patient approach towards investing capital for our clients.

In addition to our solid base of permanent capital, the majority of our assets are long dated. And in total 83% of our assets under management have a contractual life of seven years or more from inception. Put another way, we have no capital that is subject to daily or monthly redemption and only a de minimis amount of capital that is subject to quarterly redemption. In fact, more than 90% of our capital is over five years in duration. We believe this provides the basis for an extraordinary business model.

Since our last Investor Day in December of 2014, our assets under management have nearly doubled, largely due to numerous strategic capital initiatives, such as Athene and Athora and continued fundraising. Notably, a large percentage of our growth in the past five years as originated from new funds and products since 2014. These now represent more than 40% of our current assets. In other words, assets that never existed before our last growth day, have emerged as new products just in the last five years, representing 40% of our product base. The extraordinary growth and diversification of our assets is a direct result of the focus on product innovation, which permeates throughout Apollo's culture. Our clients look to us to provide them with differentiated returns across a wide spectrum of asset classes and strategies. And we are constantly looking for opportunities to create new products, businesses and platforms.

In order to maintain our leadership position as a global alternative asset manager -- managers, one of the highest priorities for us in the current environment is direct origination of yield products for our clients. The insatiable demand today for yield from investors around the world has essentially squeezed all the return out of any liquid instrument with the CUSIP. Since we do not want to rely on CUSIPs, in order to generate yield for our clients over the last decade, we've been actively working on building out a suite of platforms that originate credit investments across a range of strategies such as middle-market lending, triple net lease and equipment finance to name just a few.

The most recent example of our ongoing efforts to expand our breadth of our origination capabilities is our pending acquisition of PK AirFinance from GE Capital. PK is an industry-leading aviation lending business, which is highly complementary to our existing Merx Aircraft leasing platform. You'll be hearing a lot more today about our direct origination capabilities, I think in fact throughout the day.

In addition to origination platforms, I'd like to highlight a few other examples of how innovation has helped to drive growth at Apollo. In the depth of the financial crisis, when other investors were turning, running for the hills to find safety, we partnered with Jim Belardi and his team to create a Athene. 10 years later, Athene is one of the largest fixed annuity insurers in United States with \$125 billion of assets that we manage.

Leveraging the success of Athene and the unrivaled expertise, we have an insurance, just a few short years ago we created Athora to consolidate the European life insurance market. Athora is off to a great start with approximately \$15 billion of AUM today, and pro forma for an announced pending acquisition they will reach nearly \$50 billion of AUM in the near future.

In March of this year, we also closed on \$3.25 billion for our first ever Hybrid Value Fund. This is a significant amount of capital for a new strategy and speaks to the strength of our relationships with our limited partners and the trust they have in us. Hybrid Value is off to a tremendous start. The fund has already invested 40% of its committed fund, and the investment pipeline is extremely robust.

These are just a few examples of the kind of innovation that is taking place every day at Apollo. We have a lot of exciting ideas that we're working on in our so called laboratory, and we look forward to rolling out an ongoing possession of new products over the next five years.

Fifth, lastly, I'm extremely proud of the team we have assembled here at Apollo, which frankly we believe is the best in the industry. Today, we employ more than 1,300 people around the world, more than a third of whom are investment professionals. First of all, I've worked together with my co-founding partners Marc Rowan and Josh Harris for more



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than three decades. Between the three of us, we own more than 40% of Apollo, which I believe is probably the greatest way to assure you that our interest could not be any more aligned with our shareholders. However, the team is much broader than the three founding partners, as you will see today, we have a very deep bench of seasoned executives around the world and you are going to hear from 17 different members of senior management, including me during this Investor Day.

We've made significant investments in people, process and infrastructure since our last Investor Day in 2014 to ensure that we can scale our platform to capitalize on all the future growth opportunities that you'll be hearing about. I'd like to highlight just a few of the significant enhancements we've made to our senior leadership team over the last few years.

Three years ago, we expanded our senior leadership team with the appointment of Gary Parr to Senior Managing Director. Gary is one of the most respected executives in the financial services industry, and Apollo has benefited greatly from his deep expertise and relationships in this sector.

Two years ago, we further expanded our senior executive team with the elevation of Scott Kleinman and Jim Zelter to serve as Co-Presidents. Scott and Jim we're given full responsibility for all of Apollo's revenue generating and investing businesses and they've done a phenomenal job since their appointments at driving the growth of Apollo, while also maintaining our best-in-class investment track record.

Nearly a year ago, we further bolstered our senior leadership team by elevating Anthony Civale and Martin Kelly to serve as Co-Chief Operating Officers. In the relatively new capacities, Anthony and Martin, oversee Apollo's business operations and corporate infrastructure which is enabling continued growth.

Apollo's senior leadership continues to be supported by a management committee, which meets weekly and makes all key decisions regarding Apollo's operations. We also created the Leadership Advisory Forum, which comprises 48 of the most senior members of Apollo's leadership team from around the world. Through this group, we are able to foster the continued development of this talented team and also assure a free flow of information and ideas across our integrated global platform.

Every day when we show up for work at Apollo, we never forget who we work for. The largest component of our fund investor base is pension funds, which means that when we deliver investment excellence, we are doing our part to help provide for secure retirements for teachers, nurses, police and firefighters and other public servants across the global community. We approach our mission with a great deal of care and responsibility in order to ensure that we are having a positive impact for our investors and the communities in which they operate, day-in and day-out. We have a longstanding commitment to responsible investing.

We published our 10th Annual ESG Report, highlighting a decade of consideration into how environmental, social and governance issues impact the firm, the companies in which Apollo's managed funds invest, the communities in which they operate, and the world at large. At Apollo, we believe in the importance of incorporating ESG factors into our investment management strategy. And they work closely with the portfolio companies of the private equity funds we manage to help introduce or implement best practices in many, many respects. The portfolio companies of the private equity funds we manage, employ more than 350,000 employees in aggregate and a firm with a combined revenue of all these companies would rank as the 33rd largest company in the S&P 500. Through the private equity funds we manage, Apollo is an employer of scale across the US and a promoter of diversity throughout the funds portfolio companies. The environment and the welfare of veterans are especially meaningful to us.

I'd now like to just end with talking about how we see the next five years. One of the key reasons to host this Investor Day is to provide you with a framework for our future growth potential. One way to get comfortable with what we plan to do in the future is to take a look at what we have done in the recent past. How did we grow our total assets at a 20% compound annual rate over the last eight years and also handily beat our previous AUM target. Well, nothing beats success like success.

In private equity, due to our industry-leading track record of investment performance, we've been able to raise successively larger flagship funds, including Fund IX, which totaled approximately \$25 billion in assets. In addition to our flagship funds, we've been able to raise numerous specialized fund franchisees, including Hybrid Value, Natural

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Resources and AION in India to name just a few.

In credit, our business has grown from just \$19 billion at our IPO in 2011 to over \$200 billion today. While this may seem remarkable, we believe we are barely scratching the surface of opportunity. Our growth in credit has largely been driven by the creation of strategic capital initiatives, such as Athene and Athora. In addition to these platforms, we've built out a brands suite -- a broad suite, I'm sorry, of credit solutions that span the spectrum from yield to opportunistic to meet the various return needs of our global clients.

Our real assets business, has grown from \$9 billion to \$37 billion over the same time period, and now includes four principal strategies, namely real estate credit, principal finance, real estate private equity and infrastructure. We are focused on offering diversified products which invest across the risk return spectrum. As I mentioned, half of our AUM today is permanent capital and more than 80% of AUM is either permanent or includes funds that have a contractual life of seven years or more at inception. The benefits of long-dated sticky and permanent capital are tremendous. It enables us to invest in opportunities with a long-term focus, consistent with our investment approach and it generates predictable and growing fee income along the way.

Going forward, we expect to continue to grow at a rapid pace by applying our value oriented approach across related investment categories, which we believe have synergies with our core business and provide attractive opportunities for us to continue to expand. We can see a very clear path towards total AUM of \$600 billion over the next five years, through a combination of organic and strategic growth across our businesses. To be clear this AUM target, does not represent the end game for Apollo, but rather it's just a step along the way. The opportunities in front of us are massive and provide countless years of future growth potential.

So in wrapping up, as you can see, I'm extremely excited about Apollo's future and I hope you'll be sharing my enthusiasm. Again, here are the key takeaways, we hope you will take from this Investor Day. One, Apollo sits squarely at the intersection of value, of growth and of yield. There are very few companies in the world that have a value orientation, tremendous growth and that are also a yield generating platform.

Secondly, our growth trajectory of the last five years, and you're going to be hearing this again and again today, we believe it is totally replicable over the next five years.

Finally, we're going to leave you with one and only one takeaway, it's that we are significantly undervalued, and we believe APO belongs in the portfolio of every investor participating in this event. As you will be hearing from all the presentations today, and especially and my partner Josh summary, we strongly believe that APO common stock should be valued between \$59 and \$73 a share. We currently trade at nine multiples of FRE lower than some of our peers and we think we are a great company also, nine multiples in our view is just too much. And if we made up, just went up three multiples, we would be in the high 50's in our stock price. If we still trade at a discount of a couple of multiples to some of those peers, we'd be in the low 70's.

So with that message, I want to turn this over to my Co-President partners Scott Kleinman and Jim Zelter, again thank you all for being here today.

## **James Zelter, Co-President, Chief Investment Officer, Credit**

Thank you, Leon. Hello, good morning. I'm Jim Zelter, Co-President and I'm joined on stage with Scott Kleinman, my fellow Co-President and we're excited to share a tremendous story in greater detail. Leon, presented a broad overview of the firm, where we've been, and where we're going. And now, we will share our perspective on the current and economic financial backdrop, and how we really continue to build, operate and organize the firm going forward. In doing so, we'll touch upon the driving facets of alternatives, the platform we've built over the last five years with our team and our culture and really how as Leon mentioned, really we're poised for growth over the next five years.

And as today progresses after we lay out the strategy, you're going to hear some in-depth analysis from a variety of our partners on how we actually execute the business plan with an in-depth business overview. Our formula for success, Leon boiled it down in the three summary statements, but really, when we think about long-term shareholder return and

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what the formula for success there, really in our view, there are three parts of it.

First, as you hear about today, we're extremely well positioned in a industry where secular trends favor investment and alternative assets. And as this environment continues to grow, we have the real win to our back. Secondly, you're going to hear about our business model and as we continue to operate it, we feel that you're going to hear -- if we pull back the curtain, you're going to hear in great detail how we really are differentiated. In our LP conference earlier this year, we talked about integration 2.0, which is exciting, but we're going to share in great detail today. And finally, the the last critical element as Leon mentioned really is our people. We have a long-standing strong investment team with a great culture of collaboration across our firm and how we operate, and I am confident you'll come to the same conclusion that we have in terms of our seats over the course of the day.

Before we dive into the firm, I think it makes sense to take a step back and really (Technical Difficulty) lays out today. And in building out our platform over the last five years, it's really been informed by three and four decades of experience and how we should navigate. And I would put forth on the slide behind me, pre-2008, the intersection of investors and borrowers broadly speaking was dominated by the banks, with alternative assets firms having a really a very narrow set of product solutions.

And for Apollo it was our flagship PE fund, but it's also a small distressed and mezzanine business. And certainly, the one-stop model of the banking industry provided a distinct advantage to sourcing and executing a wide variety of financial solutions, and investors really understood that ecosystem. And this is not just simply the corporate lending landscape, but the entire environment, an ecosystem of warehousing, securitization and structured finance assets across a variety of asset classes.

Today, as Scott and I shepherd the future growth on execution, we really believe our business really is driven by three continuation of three long-term macro trends. First, it's the investors global search for yield, what we've talked about in the last number of years. Second, the ever-changing dynamic regulatory environment and investment environment. And finally, the global deleveraging of financial balance sheets.

And the impact of these three, the landscape has really had a demonstrable change. And today, we believe alternative asset firms are positioned at the proverbial intersection of first and main, between global investors and borrowers looking to raise capital as they grow, innovate and merge. And we have a first hand look at the most interesting non-commodity like opportunities across the globe.

And firms like Apollo would really become the first movers creating bespoke and scale solutions to the capital borrowers, and by developing our model of longer-dated yet flexible capital, where we can embrace complexity and a liquidity has led and will continue to lead to our consistent growth in evolution. And this opportunity you can hear today is much broader than direct middle-market sponsor origination. Our strategy will continue to evolve as we react to secular and market dislocations and don't get me wrong, the role of the banks is still critical and they play a certain role, but it's certainly an evolving role and in terms of the food chain and solutions, we sit in a very enviable position.

So as we think about this ecosystem and how it's changed, the key question is what is driving it and what is driving this phenomena. So really, as we've talked about, this is a slide you've seen before, you are very well familiar with it, but we're operating in an environment of declining secular yields over the last 30 years. The great bull market in bonds is likely over and the old textbook of tying up long duration probably is not the success needed to deal with the pension challenges around the globe today.

Secondly, the lower interest rate environment really is putting pressure on pensions in two ways. One, as we all know the market yields don't really cover the current near-term obligations and also the lower rates increase the liability for future payments. And as you can see here, since 2001, in the middle ground, today invest -- pension funds were 98% funded '01 and today it's down to 74%. That's a dramatic impact. And in turn, public and private pensions are largest investor base find themselves in a position where they need alternatives to provide the bridge on returns. This decline in rates and the compression in traditional risk reward spectrum has led to investors meeting for a broader set of solutions.

The reality is, unfortunately for pensions, the alternative space has delivered returns, whether it's private credit, top quartile PE or other bespoke products and solutions, they have continued to create real alpha over the last 10 years. And

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as is clear that alternatives have continued to generate above the broader market returns, this is a critical component of success for all the teachers and firefighters out there contributing to his or her respective pension plans. As a result, our set of products continue to gain traction globally. And where pensions have increased our allocations, they have done it really for two reasons, in order to maintain access to strong attractive risk-reward assets and finally to make up for depressed yields in their portfolio across the Board.

In addition to the favorable dynamics, which I've just described, the alternative investment environment is still is also benefiting from a evolving regulatory environment. In the dynamic economy, companies require capital to innovate and grow. And today, the regulatory environment has opened up a variety of white space, a term you'll hear a lot today, where alternative managers can better allocate capital and price marginal risk. The long-dated liabilities that our investors have are arguably better positioned to fund a variety of these activities in a strong market, as well as a challenging market.

And one example we can point to is what's happened in the leveraged loan market with the role of banks is certainly evolved since 2000. And while still leading the agent role in a variety of issuance the economics have changed due to their long-term hold being in the high 50s to basically 10% of a transaction, going forward. And whether it's an asset-backed loans, aviation finance or a variety of other activities such as media rights lending, there are few -- these are many of the few examples of our many, many examples of our broadening platform. And this environment presents a significant opportunities for Apollo in terms of product innovation, which we'll touch on a bit later.

At the same time as investors are really increasing their allocation to alternatives, they're very much consolidating their partnership with those that can provide a tremendous amount of resources to the table. The scale of origination, the global insight, the technology, the risk controls are all of the capabilities inherent and incumbent in the winners, and we've seen this impact firsthand.

And we were up here five years ago at our Investor Day, we had around 90 investors, they had more than five relationships with this -- across the firm. Today, that's increased to over 170 and the pace continues to increase, and this is really a testament to our expertise, but also as Apollo as a brand, a brand of excellence and superior investment returns. And from our perspective, the competition really does expand and those who are embedded in this new ecosystem, will have an advantage as the years go on throughout the decade.

Now, let me turn it over to Scott.

## Scott Kleinman, Co-President

Thanks, Jim. So Jim just told you about how the market opportunity is working in our favor, I'm going to speak to what gives Apollo its winning edge. Like most companies, it starts with culture. Four key attributes permeate our culture that really differentiates us from the rest of the financial service industry. First, we're inherently value-oriented regardless of the market or the product. It takes a special mindset, but it's something we developed in our people from the day they walk in the door.

Secondly, we're contrarian, that doesn't mean we're always bidding against conventional wisdom, of course, you need some sort of a thesis. But it does mean that we're not afraid to go left when others are going right. Third, we're a collaborative organization. We're the only firm of scale that has no information barriers and runs in integrated platform. Others may say they do or may even attempt to do this to some extent, but nobody does it in the way Apollo does.

And lastly, we're innovative, developing products to take advantage of changes in the marketplace. And that's important, we let the market's dictate where we innovate, not the other way around. The key is not just having these four attributes but for us, it's really the interplay between them and that's really where it leads to better outcomes. So, let's go through each of these in a little more detail.

We'll start with value orientation. We're students of markets constantly looking for ways to take advantage of short-term dislocations or long-term cycles. At our last Investor Day, we spent a lot of time discussing how we maneuvered through the great financial crisis and then the subsequent re-regulation of the banking sector. Out of this,



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we created many new products, some of which you see here to take advantage of the dislocations in the market.

For the last few years, however, the team has evolved. As value investors, we find the cracks in the system where excess capital hasn't fully permeated. Hybrid value on our Accord series are both great examples of this. The key to our success is focusing on value versus momentum, that's what's allowed us to see the changes happening before others and therefore, be able to capture that excess return. And Jim will talk more about this as we talk about product innovation a little later.

So hand in glove with being a value investor is being contrarian. We have almost 500 investment professionals who's singular focus in life is to be the best value investors they can be. If that's the case then being contrarian is an absolute must. But as I said earlier, being contrarian for the sake of being contrarian does nobody any good. For us, it's about spotting those transitions in the market before others do so that we can take advantage and again earn that excess return.

So a few attributes has to be present for you to be able to do this. First, you need the intestinal fortitude to Zig when others are zagging. Secondly, it helps to have experience doing this to be able to see around the next corner, because how things can play out and having a view to that is really, really critical. And then third, having the right tools in the toolbox, what we do isn't plain vanilla, and so, having the right kit is absolutely critical.

Now, not only is being contrarian a cultural phenomenon it's also a firm organization one, having an ability to pivot from public to private, primary to secondary, secondary to direct origination is absolutely critical. For most firms, even if they have some or all of these pieces in their system, they're just not organized to be able to do that. So this pivot is really what's absolutely the key. Most firms are structured very siloed with groups that directly originate, others that trade, some focused on performing credit, others on distressed credit. So let's say if you're organized in that way then folks who originates a middle market industrial credit, right, that's all the focus on doing whether or not that makes sense for that point in the cycle. Different periods in the market cycle should clearly call for different strategies, if you're trying to earn that excess return. So what Apollo right at the ground level of course, we have all that expertise in product, in market, in sector. But we're also organized so that middle and senior management are always looking for the best way to deploy capital given the market conditions.

We're not incentivized to push product x over product y, we let the markets dictate where we should be leaning in. And this constant pivot is what allows us to call ourselves an all weather firm. So, this all ties into the next point, right, the integrated platform. In order to successfully execute what we just spoke about, you need an organization that is collaborative with visibility across the platform. This is where Apollo is unique and where we really shine. This mentality is ingrained in the Apollo ethos and is reinforced every day, not a day goes by where one part of the organization isn't helping another either to identify good ideas or to avoid bad ones. And this doesn't happen by accident, it's only human nature to focus on what's in front of you, your job and not worry about the person down the hall.

So this is constantly reinforced by management by building connectivity across the firms, right, you can ask for help from someone, you don't know who to ask. Secondly, by showcasing the wins. And third, of course, by creating the right compensation structures. So ultimately this is hard work where most firms don't bother, but for us, we couldn't be the value-oriented firm that we are without it. So, we know that this makes us better investors for our LPs and better stewards of capital for our shareholders.

### **James Zelter, Co-President, Chief Investment Officer, Credit**

Several years ago, at our investor meetings, Leon used to refer to us as the PE firm for all seasons and today, based on the backdrop that Scott described, the ecosystem that I put forth earlier, we really created a firm for all season, developing an ecosystem for innovation and growth. And this is a chart that we showed five years ago, which was and Scott alluded to it earlier, but certainly when we think about the last five years, we've continue to expand, which is exciting. And we've expanded in thought in areas that are consistent with how we've built our business.

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And in addition to reinforcing how this critical integration to our platform, we've been methodical about how we grow. And while we've grown substantially, we've done it carefully in markets and in the low yield environments where Apollo can demonstrably show a competitive advantage. We want to capitalize on that edge in terms of our periphery and our sandbox. And we approach every decision about growth -- regarding growth with the same vigor, discipline and detail that we do invest -- making an investment for our investors. And this is a message you'll hear as we deep dive -- deeper into credit, private equity and real assets over the course of the day. We don't chase AUM, we chase logical returns in areas that are adjacent to our expertise across the platform.

Certainly, what you're going to also and what Leon mentioned earlier, with the access to permanent capital is really a critical component of our virtuous circle of growth, which Mark and others will address throughout the day. But certainly as our insurance vehicles have scaled over the last several years, we've expanded our differentiating yield capabilities to drive outperformance of the platform, and this creates a virtuous circle where outperformance drives insurance growth assets, which in turn creates more demand for directly, broadly originate yield. And this circle was only made possible by Apollo's vision to innovate, which is now being candidly the envy of the industry.

Our recent activity with a theme on PK Air finance is just one example of M&A driving our platform to grow. I refer to it as a triple play, others refer to it as a trifecta, Anthony will get into great detail on how we create a transaction like that, the incremental returns and certainly, how we think about it having a multiplier effect on our returns, but also our business. And as a result of these things, we're able to create a scaled differentiated capabilities efficiently and that expertise is directed at our affiliated balance sheets as well as our global institutional partners.

Collaboration to create a business like this for 30 years and continue the pace of growth, the collaborative environment is really driven by the philosophy from the three founders at the top, our executive committee, which you'll hear from today actively sets and drives our strategy and the management committee executes the business plan and guides the day-to-day operations of the firm. And over the past five years and certainly emphasized in the last two years, we have continued to put more structure and formality around our leadership teams to promote a culture of active and engaged management.

You'll hear from a variety of partners today who play a critical role in that evolution, which is a big component, a critical component of our success and will enable us to achieve our long-term growth objectives as Leon pointed out earlier this morning. So we continue to invest in human capital and in human leadership across our platform.

So everything we've been talking about today and we'll talk about today is really not your typical approach to the financial service industry. It takes a very deliberate approach that's been honed over three decades of really trying to get it right. As you can see on the right, our Top 50 professionals at Apollo have spent on average half their careers at Apollo. That's 26 years in the industry and 13 years at Apollo. That longevity is critical to passing down the way we do business to each successive generation.

So what traits are we exhibiting and passing down, well, first a strategy discipline of value orientation that's military like and its discipline. Second, a willingness to embrace complexity where others cannot or will not. Third, an integration that you just don't see outside of Apollo. As I said a minute ago, right, it's not natural, but it has to be ingrained in all of our young people as they come in the door until it's second nature and then it has to be reinforced and improved upon over and over again. And then fourth really, for lack of a better word an inferiority complex, a feeling that we're never doing good enough, always something better, we could have done a better deal, a better way to approach the market opportunity, a better way to manage our business. It's obsessive and it pushes us to grow faster and create more value than the next firm.

And as you can imagine, this type of an environment attracts a certain type of professional. It's not for everyone, but that's okay. We believe we've assembled the best of the best employees, which is a critical component of our success. As I just mentioned, Apollo is focused on hiring folks who display a strong cultural fit while elevating and acknowledging our existing bench. Over the years, we benefited from the transition from sell-side to buy-side, allowing us to attract top talent to our firm. You see behind me, just a very small subset of some of the folks we've hired and promoted since the beginning of the year. Our hiring strategy when aligned with our investment and growth objectives continues to be a critical component of Apollo's success.

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And so lastly, I wanted to touch on alignment. We're a financial services firm and so our main objective is to make money for our investors and shareholders. That's why getting alignment is so critical. As we think about it, we have three key constituencies: our LPs, our shareholders and the integrated platform itself. We've constructed our comp programs to support that alignment. One thing I've learned from owning companies for the last 20 years is that if you get the incentives right, the behavior follows. And so we think we've gotten it right, including for you, our shareholders.

## Scott Kleinman, Co-President

So maybe I'll wrap up where Jim started. When you put the pieces together, we really do believe that we've built a differentiated and better mousetrap. Certainly then our other alt peers in the financial services sector more broadly. Our approach will continue to lead to superior shareholder returns. Martin and Josh will walk you through the math over the course of the day. So I'm not going to go into that here, but suffice it to say, we've built a growing business that delivers incredible margins sustained by AUM and earnings growth and really cultivated by an experienced integrated management team.

So with that, now I will turn it over to Marc Rowan. Thank you.

## Marc Rowan, Co-Founder Senior Managing Director

Good morning. I certainly sleep better every night knowing that those two are working 24/7. It also allows me to do what I like to do and what I've spent the last decade doing, which is overseeing the growth in our insurance platform, Athene and Athora primarily. So, the slide talks a little bit about -- excuse me, being a solutions provider, but I'm going to start first by defining what it means to be in the insurance business because insurance means different things to different people.

Insurance, some investors think of as incredibly complex. I'm going to make it really simple. We are in a spread lending business. That happens to be called insurance. We borrow from policyholders in the form of annuities, in the form of pension buyouts, in the form of GICs, and we invest the assets 95% in credit, primarily senior secured credit and 5% in alternatives to earn a spread. We are a spread lender, we make money on spread and the business that Leon started on and that Scott and Jim spoke about that has grown so much is not about growth, it's about spread. If we can earn spread, we can grow.

So not only our rates down and Jim, I think did a very nice job talking to you about where rates are going. Rates at the end of the day, don't actually matter to our business. If we have low rates, as long as we can earn spread, we're fine. Lower and higher makes no difference. What is happened is a change in the structure of markets and I think you're going to hear a lot about this today. If I remember how we started when we first started growing our credit business, we used to go out to our LPs and talk about our prowess and liquid credit, how we were a better investor in high-yield bonds and levered loans. If you think about those markets today, and Leon touched on this, those are examples of CUSIP markets, tradable markets. Right now, the price of a security in CUSIP market is determined by an investor, who has not met the company, has not read the documents, knows nothing about what they do. Those investors which I define as ETFs open-ended mutual funds and derivatives, buy when they get cash and sell when they lose cash. There is virtually no excess spread in liquid CUSIP markets.

And since we wake up every day to feed our insurance clients, Athene and Athora, and our limited partner clients, we've had to fundamentally change how we approach the yield business. This is to me, just a simple chart outlining the change that we're undergoing. We're undergoing a change from focused on liquid CUSIP markets to things like trade finance, real assets, aircraft, so on and so on, which I'm sure you will hear a lot about today. Previously, you've heard us identify our strategy as to be the GE Capital of the future. One has to be mindful of carrying that analogy too far giving some of the misfortune to GE, but I think the analogy still holds. There was no better senior-secured top of the capital structure lender than GE in its day.

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And if you think about what they lent against, they lent against planes, trains, automobiles, medical equipment, dealer floor plan, franchises, so on and so on. These are all examples of senior-secured lending businesses that did not lend themselves to trading in CUSIP form. This to me is among the most critical things that will drive growth over the next five years. We can want growth, we can wish for growth, we can hope that our insurance business grows, but our insurance business and our yield business will grow only as fast as we can develop these platforms to provide spread. Without spread, there is no growth.

Why do we like these origination business -- these direct origination? At every point in the risk reward curve and again, senior-secured, we earn 200-plus basis points better return without taking more risk. In addition to more return, these are senior-secured, this is full diligence, control over the credit process, syndication sell down and all the other benefits that come from doing this.

It also helps to have picked out an area of the market that is not all that competitive. That's not to say we don't face competition, that's not to say that it's easy, but if you think about where these businesses reside, these businesses reside on the balance sheets of financial institutions. You come to Apollo and you look at our aircraft lending business, most of the team has come out of Citi. If you look at our real estate lending business, most of the team has come out of Deutsche Bank. If you look at the small and middle-market loan business, they come out of Merrill. We are an incredible home for these businesses which heretofore could only exist within large financial institutions. Think about something like trade finance, if you're the Head of a trade finance business at a large German bank you and your 20 person team come in every day and you originate loans that are put on the bank balance sheet. And to do that, you need a 20 person team, you need a technology budget and you need more than \$1 billion as revolving credit. Historically, your career options were to work for a European Bank or Japanese bank or US Bank. And that was it.

All of a sudden you and your 20 person team can come to Apollo, you can be set up in a yield vehicle, we will originate -- we will take all of the origination off your balance sheet onto our yield -- into our yield business, primarily insurance companies. We will incent your team on a long-term basis as equity holders, not just to grow the business, but to originate credit at a high-quality level. Being in a business that is focused on taking these things out of banks I believe to be a very, very good strategy. The other, and this is the middle-box talking about limited competition, these businesses are not high-yield businesses. These businesses provide 4% to 6%, maybe 3% to 6% absolute levels of yield, because we have the need to feed our insurance company balance sheets, because they make substantial amounts of money at those levels, we are a really good buyer for these types of origination businesses. You compare this origination need to all of the businesses that are the so-called credit businesses of our peers, they are originating credit that requires much higher rates of return.

It's neither good nor bad, we're just in a different business. LPs, as Leon suggested need to close a gap to their pension budgets. They need six to 10. The insurance company business, insurance company clients three to six. That is a fundamentally different business than most of our competition and something that I've seen in research is very poorly understood just a totally different market. The third thing I'll say is, and I mentioned this when I was talking about GE, these are businesses that originate senior secured credit rather than traders or investors who are buying securities off the screen.

If you think about our mid-market loan franchise MidCap, MidCap is nearly 300 employees. It is a complex business on its own. It has origination, it has back office, it has technology. It is very much like a portfolio company. The mindset that we bring to this from our private equity skill set actually is essential to overseeing the growth of these platforms, to oversee aircraft, mortgage, leasing triple net lease, small and mid-market loans and a variety of other businesses requires intense collaboration and knowledge that comes out of our private equity business and harkens back to the words you heard already about integrated platform. For someone who's supposed to talk about insurance five slides in on the first time I'm going to show you something that really deals with insurance. We have built an amazing insurance business, the business pending right now is about \$178 billion. What's interesting about this business, it's been built in a period of declining interest rates, and like we answered about Apollo I believe in insurance, the best is yet to come.



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The global trends, the macro trends are so negative for some of our large insurance company competitors that I believe we will in the normal course of maintaining high levels of spread, focused on industry-leading returns double the size of this business over the next five years. And so what are we seeing that's in the industry. It's -- in 20 years ago in the industry, many recognized that the insurance companies were not inherently good asset managers, and 20 years ago they outsourced their money management business to BlackRock, PIMCO, Western, DoubleLine, GSAM, Henderson, pick your favorite firm. And 20 years ago, that was a really good decision because these places have culture and they were better selectors of yield and credit in the context of the market that existed at that time.

If you believe as I believe that there is limited to no value in the CUSIP market and you think about that outsourcing decision today what is it that these large mega asset firms like BlackRock & Co, Western, DoubleLine, GSAM and Henderson do? Well, they aggregate CUSIPs at a very low cost. Their alpha is actually cost. It is not participation in the kind of origination markets that we participate in. And so if you are in the spread lending business in the form of an insurance company, which is the bulk of what we do, you're looking at declining rates, you're looking at the absence of any spread available to you in the market and the culture of these insurance companies is not likely to support a build up, a substantial indigenous asset management presence within their own organization.

What are they doing? Well, many of the largest companies have exited. Those that have not exited, many are considering exiting. Think about AXA selling Equitable, think about Manulife selling John Hancock, think about Voya, think about AIG, think about Generali in Europe. Think about what's going on across the market. These are not isolated trends. This is a fundamental move by the insurance industry to get out of guarantee products because they can no longer compete and they would rather put capital behind mortality, fee for service unit-linked, you name it. The other thing that they're doing is they are taking capital out of the business. You can see at the slide on the top, dividends and repurchases have been primary ways that the insurance companies have satisfied their shareholders, immense amount of capital have flowed out of the industry and because of the prospects for the industry being so negative if you are in fact without an asset management capability, very little equity has come into the business.

Contrast that with what we've been able to do at Apollo, we have raised nearly \$11 billion of equity over the past decade to bring into the insurance industry, to bring that in contrast, and I was in Europe yesterday \$11 billion is more than the totality raised by European insurance companies in the last decade. \$11 billion is more than the totality raised by US insurance companies in the last decade.

We are very fortunate to be able to raise capital and it reflects the deep relationship and trust that our investors have for us and for the team at Athene and Athora, and I'm sure you'll hear more about that later. To put it in context, and I think sometimes we do really lose context, we have built something over the past 11 years that now exceeds the size of Swiss Re. We will likely double this business over the next five years not because we want to double it, not because we are looking for AUM growth, but because the trends are so favorable. Big companies want to exit this business, you can think of the reinsurance industry and many in the following way.

There are a number of large reinsurers who reinsure PNC risks; Berkshire, Munich and others. There are a number of large reinsurers who reinsure mortality risks; Swiss Re, among others. I challenge anyone to name another reinsurer upsize who reinsures guaranteed investment risk. We are it. We are taking on the risk that most of the rest of the industry is selling. We are capitalized, they are without capital. We are building an origination business that is yield-focused to support the driver of this business, which is yield. We have roughly 200 people at Apollo who wake up every day and do nothing other than insurance, and who knew insurance was going to be so exciting 10 years ago when we started.

So it's my great pleasure now to pass the mic and the opportunity to my partners, David Sambur and Matt Nord. Thank you.

## **Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer**

Thank you, someone has to follow the mic and I do (inaudible). So good morning, it's a pleasure to see everyone here. I actually know many of you from meetings we've had over the last handful of years and I'm very glad you could make it

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today and for those who don't know me, I've been CFO here for seven years. And as Leon mentioned earlier, took on the mantle of co-COO with Anthony Civale, who you will meet a bit later almost a year ago. And I feel actually fortunate to be part of the evolution of Apollo thus far in my history, but more excited about what's ahead of us. That just seems to be so much that will benefit us as we look at the opportunity set that we can take advantage of.

So let me translate our business growth story into financials and help orient around some of the key metrics that we focus on. We anchor our financial strategy around several core themes that you can see here on this page. One is growth and several of the speakers have mentioned we don't chase AUM growth, but we achieved growth and we've shown that through cycles up and down. We look and achieve growth in FRE and margin, FRE dollars and margin which is anchored by asset growth. How have we done this? We're able to pivot and innovate as opportunities present themselves. We scale existing businesses and we invest, we invest selectively in opportunities that we think have a significant revenue benefit to us. And you've seen that we have demonstrated that over time, and you'll see that in the numbers in a few slides. Through the crisis on the back of the crisis in the last number of years where we through a low rate environment and the declining rate environment, we've had impressive growth.

So we've shown that we can do it through any cycle. Secondly, we look for highly durable FRE. We have as Leon pointed out, we have permanent capital today, which is 50% of our assets under management. And then on top of that we have long-dated capital. In aggregate, 83% of our capital structure today is the permanent all long dated and that provides tremendous visibility into what our future revenue profile looks like, highly durable and sustainable through cycles. We look for accretive growth. We are good at creating operating leverage and operating margins which we've shown and you'll see in the numbers in a few slides and we do that by balancing, scaling our businesses that we're in. And if we do well in terms of returns for our LPs, you tend to be able to raise a bigger fund the next go around and that provides leverage. We invest for growth and innovation and that costs P&L upfront with the revenue payback. And then we're good at cost management.

And so the sum of all of that creates tremendous margin expansion and operating leverage across the platform. We have a strong balance sheet at the firm level. We have almost \$2 billion of cash on the balance sheet which is frankly I think more than we need, but it's available to us to take advantage of opportunities, if and when they present themselves.

In our fund complex, we have \$45 billion of dry powder, ready to put to work, \$20 billion of that \$45 billion is not yet earning management fees and it will, as it's invested. And then lastly we've made structural changes that address a wider ownership base and that's the reason I think that a number of you here today and that we converted to a C-Corp in September. We announced last week, the transaction with Athene to provide better alignment between the two companies. And we're seeing some pretty significant changes in our shareholder construction just in the last three or four months, we've seen a 50% increase in ownership by long-only and passive shareholders since the end of June and I'll dig into that a bit more later.

So let's move on to our story in numbers. We do believe that the past performance is a guide to what we can do in the future. Momentum and traction and the focus in the firm provides growth opportunities that we think will allow us to keep growing. If we look back to the year of our IPO which was 2011, we have grown at a 20% compounded annual growth rate in our assets and our fee gen assets over that period of time. And that's for the reasons I mentioned and then others have mentioned, we build out existing businesses, we pivot, we innovate and we grow out new platforms.

We have seen growth in AUM in every year. If you look back and look at it year-by-year, every year we've seen growth anchored by our fund raising efforts, which Stephanie Drescher will get into a bit later and includes importantly the point that Mark just made on raising seed equity for our permanent capital platforms, which can then be levered to grow both organically and strategically to create a bigger asset base.

Assets create fee revenues and so that growth is then translated into a 13% growth in fee revenues and the difference between those two rates is explained significantly by mix of business over that timeframe. We've been fortunate that our fee rates have held. Good performance, good returns to LPs allows us to hold fee rates, but the mix business has changed as Marc mentioned with the shift to the yield -- relative shift of the yield business away from opportunistic. And then lastly, we've been able to translate that 13% revenue growth into 24% FRE growth, which we're obviously

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really pleased with. It's something we focus a lot of time on. And it's for the same reasons, we look for operating leverage in everything that we do across our businesses on the front side and on the backside of the fund.

We've seen impressive growth in each business. The 20% increase in assets over this timeframe translates into a 4x increase. So we had \$75 billion of assets at the end of 2011, it's grown by \$250 billion to today. That's represented in every business, PE, our mature business has doubled in assets. Credit, our fastest growing business has seen a \$180 billion of that \$250 billion is coming credit. And real assets, which at over this timeframe, when we started this timeframe was a small business. Now stands at \$37 billion of assets growing rapidly and we see significant potential in front of us for that business to continue its growth profile.

So, then let's translate asset growth into revenue growth. Obviously, one creates growth in the other. If we go back over this timeframe and look at revenue growth back to 2011, we've seen 13% growth. If you go back further to 2006 which this chart shows, we've seen 23% growth. So even during times of market distress, even with the headwinds of predecessor or legacy funds tailing down as new funds come online and even before, during and after the financial crisis, we're seeing a growth in every time period, 13 years uninterrupted growth in management fees, driven by all the same factors that you've been hearing about.

And as we look forward, we continue to underwrite low-double-digit growth in our management fee stream, given the opportunity set that we see in front of us.

So, an important question we're often asked as we travel around and meet with investors, the question is something along the lines of what happens in a sell-off in the markets? What happens in a recession? How durable fees -- your revenue and your FRE? to some distress event. And will they really hold up and can you go and how comfortable are you with that. We think about this in a couple of ways. One is the -- ones the durability of our asset base. We think we have a really durable foundation in assets that will serve to protect our management fee stream through any market cycle. And as Leon talked about this earlier, this provides a bit more detail of the \$323 billion of assets today, exactly half is in our permanent capital vehicles that you can see here on the slide, the Athene, Athora, MidCap, BDC and a couple of others.

Over \$100 billion of assets represented here in the blue are in funds that their inception had a life of more than seven years. So we define long-dated as seven years or more. At inception, you could argue that's a long way out, but that's how we look at it.

If you then take it down to what funds actually have liquidity rights, where do the LPs actually have liquidity rights in funds, under \$30 billion of our fund complex today has some form of liquidity, right, most of that is quarterly liquidity. And in fact less than \$1 billion of this whole total has daily or overnight liquidity rights. So we don't see much leakage, if you like of assets in the event that is a sell-off and investors need to access liquidity because most of our capital, the far majority of it is either permanent or long-term locked up.

The second part of the question, that is, okay, so how does the sell-off effect the fee stream. What's the sensitivity of the management fees to market factors that could create a decline in management fees?

And the answer is, our management fee actually has very low sensitivity to market changes. 50% of our management fees actually have no sensitivity. We in those funds, which tend to be our drawdown funds, we earn management fees on committed capital or on the cost of invested capital and market changes have no bearing on the market fees that we earned from those funds.

The other 50% of funds have a variety of fee structures, but they tend to charge management fees based on that asset value where changes in market are relevant and they do affect the management fees that we own. So what we've done here on the chart is sensitize -- assumed movements in rate spreads and equity prices and quantify the impact on our annualized management fee stream. So in the first case, if credit spreads widened out across our entire credit book by basis points just a shift of the curve up. We would have a 3% and that was sustained for a whole year. Then over that year we would have a 3% decline in our management fee stream. On rates, a backup in rates of 100 points across the curve would have a 2% impact on our management fee stream. And interestingly equity prices would be de minimis. In our equity businesses, for the most part we own fees based on committed capital or cost and a decline in the equity

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markets would not affect the management fees that we own.

Importantly I think included within these numbers is Athene. Athene has asset side duration, it has to as an insurance company and so and its duration on the asset side I think is around four and change years [ph]. And so that's all included in these numbers. If you look at the Apollo platform ex the fee stream we had on the Athene's balance sheet, we have credit risk. We've a credit shop. And so we have some credit spread duration, but most of our loans and credit investments are floating rate.

So we have very little interest rate duration away from what we own from Athene's balance sheet. So when you package all this together, we look at this as a very contained and manageable number. But then when you -- so when you combine these two points together the durability of capital, 83% of our capital as we define it is permanent or long term and 50% of our fee stream has no sensitivity to market changes. Then what you worry about is what it's in the middle. And then what it's in the middle is has potential for a decline in management fees in the event of a recession, and you can all like your own assumptions about what happens to spreads and rates and so on in a recession, we've indicated some factors here. Most of that credit book is senior secured.

So we've indicated 200 basis point widening of spreads across the whole book, you can move that up or down. And what I suggested that there'll be some leakage of capital from the system. And so we've said a 25% leakage of capital from liquidity, from funds that have liquidity rights might happen. We haven't seen it, but that might happen. Kind of balancing all of that and we think actually more of counterbalancing all of that of the components on the right. We have \$20 million today of dry powder in management fees where we're not earning any fees and we will, once we put that money to work.

And so I think it's very reasonable to assume that a chunk of those assets would be invested in a time of distress and in 2008 we put \$16 billion to work in distress. So I think we've suggested 25%, I think it's probably more than that. I think it's highly likely that permanent capital vehicles would be acquisitive and more acquisitive in the event of a dislocation. We would go and raise more capital. We would be in the market for distressed capital that is not in our current plans in the event of a distress and then faster deployment leads to higher transaction fees.

And so all of the factors on the right, we think counterbalance what's on the left, which leads to -- and insulated and durable fee stream through a sell-off in the markets. On just to round it out, on the cost side, we don't see an adverse change in our cost structure in the event of a recession. We spent a lot of time thinking about this and talking about this and this, so presents our thesis around what might happen. So underpinning a lot of the comments today already including mine is the advantages of Permanent Capital and so Permanent Capital underpins our fee durability and also our growth. And so the question is why is it important to us and why do we evaluate and it comes down to the point that Mark made earlier around equity capital that's been raised, both in Europe and the US.

If look at that and look at what we've been able to achieve with that equity in growing Athene in Athora, it kind of speaks for itself. But this point makes it simpler through an example, if we raise \$1 billion of equity capital for insurance platform, it tends to be levered around 10x, so that creates \$10 billion of assets to invest.

If we just assume a 35 basis point management fee on that at the firm's margins, at the firm's tax rates, then at the shareholder level that's \$300 million of value created from that \$1 billion of capital. So it's highly leverageable on efficient capital. The benefits are, there is no forced liquidity. So it is permanent. The run-off in the liability structure that supports the permanent capital vehicles tends to be very long term, and so there is a headwind, but it's replenished through organic production and then the fees are accretive and additive from day one, so as you add a block of assets and liabilities, then you start to earn fees from that day.

So it's very powerful and important to our earnings profile as you can see and -- as its been represented in the numbers.

So let's move on. Let me translate asset growth and fee growth into FRE growth. So there's sort of get to the cost structure of the phone. So we've had 13% growth in our management fee stream. We run the firm, a bit like the way we run a portfolio company in PE. We've been able to pair management fee growth over this timeframe with comp growth of 7% and non-comp growth of 5% to create operating leverage and a 24% increase in our FRE. We look for operating synergies, we apply a return on investment framework to most everything we do and so if we want to spend money



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then there has to be a clear payback in terms of revenue potential. As part of the, the remit that Anthony and I have is always -- we are looking to formalize and further a lot of the work that we've already done to create structure around operating models within the firm to create a better technology and a more development technology strategy, enterprise risk management, data strategy to connect different pockets of data. And so we think what we've done to now up until now continues through this framework.

And what we do is, we're constantly balancing investments in the platform, which you've heard about, and you'll hear a lot more about today with the payback, the revenue potential and how quickly that will emerge. So expressing that in per share terms and margin terms, we've had consistent margin expansion over time. Our margins have actually doubled over this timeframe to 57% on an LTM basis. So you could look at that as half of our FRE today has come through margin expansion over this timeframe. And we see potential for that to grow further over time as we look forward, even without the benefit of a new PE flagship fund, but we also see a lot of opportunities to invest as you've been hearing about, and you will.

And for us, CapEx is OpEx, you take the payroll cost upfront, we don't capitalized costs and so we're constantly balancing the payback and the P&L consequences of doing that and it's a balance between existing businesses which are scaled and growing and efficient and creating operating leverage and investing in new businesses and new platforms and innovating and that's the process we work through.

We are seeing margin progress at every business, I think the numbers speak for themselves. Again, private equity are sort of mature business has grown its margin over this timeframe by 21% credit, the big growth engine in FRE dollars up by 33% and real assets our newest business has gone from slightly negative at the start of this timeframe to margins in the low '40s, all really impressive and all driven by the same factors.

So let's talk about cost for a minute. The challenge for everyone in our industry is managing compensation. You have to get it right. You have to pay people for performance. You have to pay competitively, and that has to be managed in line with our overall operating performance and margins. A big part of our margin expansion story has been managing comp. As you can see on this slide, the top half looks at our total comp ratio, which combines FRE and incentive and then the bottom half looks at our incentive comp versus our FRE. And you can see here those lines have diverged and that's been purposeful, incentive, earnings get a lower multiple, but they value by employees. So we've leaned into that and have let that margin -- that comp ratio increase over time.

FRE earnings are highly valuable and we've been able to use an increase in incentive comp to buy down our FRE comp. And so Scott alluded to this before, we have a number of programs inside the firm which award incentive compensation to employees in different parts of the fund. At the business level, deal teams participate in the funds and the businesses that they work with. They also participate in business wide, carry plans that aggregate points from different funds. And at the firm level Scott mentioned global carry plan that's a plan that everyone in the firm participate in above a certain comp level. And so for us unlike many firms that have a cash and stock grid, which determines to split one versus the other different comp levels, our grade has a (inaudible) which is carry. And so many employees in the firm share in both in all three of cash, stock and what we call Global Carry Plan. And that's a way to award incentive compensation to employees and make sure that we can maintain and control the FRE comp margin that you see on the page here. On non-comp, it's a similar story. We were very focused and disciplined at managing every lines in our non-comp and we hope we use technology to help us do that. We bring up PE style to that, we do bottoms-up budgeting, zero-based budgeting every year as an annual assessment. We use a non-US workforce, which helps both our comp and non-comp lines and you can see here over this time period a steady downward trend in our non-comp costs.

And we remain hyper-focused on this. So underpinning a lot of this is our planning process and I frankly don't know another firm that does it in as much detail as we do. We spend an awful lot of time on this, we iterate, we refine, we challenge, we stress, we back test, we challenge each other and our process is one where every summer we spent several months doing a five-year plan look forward and that culminates in a day or day and a half where as a management team, we spend an offside session going through all components of the plan. That informs a lot of decisions that either are made or need to be made around investing in new businesses, platforms and other changes that

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we may want to make. And then that runs into an annual budgeting process. Right now, we're in an annual budget. That will be done in the next couple of weeks and that informs all of our near-term investment spend needs for next year as well as our growth that we expect to come through.

And then monthly we spend -- this is where we spend a lot of time. We spend a lot of time looking at, tracking actuals to plan budget forecast at the business level, sub-business platform, sub-platform department level and making sure that's understood, trends are uncovered and that we challenge each other on plus and minus trends relative to what we were expecting. And we get that out in the open and we talk about it. And so we do all of this every year, every month. It's a process, it's embedded, there's a language around the metrics that we use the people to understand throughout the firm. It includes the ROI framework. But all of it sort of translates back to the key metrics that you look at, to look at the profitability of the fund.

So let me transition to the overall cash earning story now and Josh will pick up more on this later on today in his section. FRE, this chart shows the increase in FRE over time and at the top you can see the proportion of FRE to our total distributable earnings. And the proportion has grown significantly and steadily over time. On an LTM basis, 91% of our distributable earnings were accounted for by FRE for two reasons, one is FRE has, as we've talked about, continue to grow, its steady, stable, predictable and growing. And then we've been in a lighter realization environment for the last couple of years.

As we look forward and look to a new PE realization cycle, we would expect the ratio to be approximately two-thirds, one-thirds, as we look forward, two-thirds in favor of FRE, one-third in favor of incentive. And Josh will pick up more on that later on. The benefit of this is, we have the foundation of strong, stable, predictable FRE earnings which are growing each year, supplemented by what we see is incentive cash earnings to come in the near term. And so on performance fees do believe a new period of realizations is eminent, as it was for us in 2010 and that's based on the maturing of our funds and there, there are ripeness and ready to harvest. It's also dependent on economic conditions allowing that to happen. The construction of our PE funds is important to this, Fund VI and VII were raised pretty close together around the financial crisis, they matured together, they harvested sort of on top of each other for three or four-year period from '11 through '14.

Total fund VIII, our current sort of invested vintage fund closed in 2014 and has been a growing value and David and Matt will speak to that. As we see that fund as we look forward, we see three or four years of realizations ahead of us coming out of fund VIII and then sitting behind that is fund IX, fund IX is our largest fund of 25%, it's almost 20% invested and it's more naturally spaced relative to fund VIII then it was to six and seven.

And so, there should be a handoff as VIII harvest itself for the next three or four years and sauce to tail off, IX should tuck in on the back of that and pickup where fund VIII is dropping off. So as we look -- as we (inaudible) carry eligible assets are approximately double what they were in 2010, as you can see from the chart.

And so we -- as we look forward in our models, we would suggest a range per year over this timeframe of \$1.75 to \$2.25 of net carry cash earnings. and what we think are conservative and realistic IRRs for the portfolio. So tying these two components together into our distributable earnings, FRE the solid core foundation increasingly large proportion of our total distributable earnings for all the reasons we talked about supplemented by realized performance fees, currently a small component, but what we about to enter what we think is a new realization cycle combines on an after-tax basis to drive a high distribution. And so that's the foundation of our distributable earnings against which we pay the dividend.

And Josh will pick up more on both of these components and the overall picture later on today when he speaks. Just moving on to balance sheet quickly, we're balance sheet line [ph] by design and by construction. We have about \$2 billion today, plus Athene investment to come funded on balance sheet investments. Two-thirds of this number actually is a theme. So we're able to achieve pretty significant asset leverage with a small balance sheet investment and that drives management fee growth. We have -- on top of that, we have almost \$2 billion of liquidity sitting on the balance sheet today, which is available and funded. And we think that helps sort of us in more turbulent times if they come to be both offensive and defensive. And so we think that's a solid position to work from and then we have access to other unfunded liquidity if we need it.

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And so all of this sort of plays into the dividend policy again which Josh will pick up a bit on later on today. Last couple of topics, firstly on structure. So we heard feedback loud and clear around our all PTP structure and we responded to that by electing to make a conversion, which we did. So on September 5th, we converted to a C-Corp. We were included in the CRSP Index that Vanguard tracks against in mid-September.

The only negative to us of doing that has been some tax leakage from paying taxes at the company level from -- on carry income that wasn't previously taxed. We're seeing the benefit in the stock. We've seen a significant change in our shareholder register over time, which you can see on this page. We've done after announcing and then both before and after converting itself, we've been on the road a lot. We've been all over the country. We've been all of the Europe, we've made meeting with lots of prospective investors that we think would be good long-term owners of our stock.

We did a targeted outreach and we had great meetings. We had quality meetings with investors who are very well informed on us and had a great questions. And it feels to us even though it does feel like it's early days in the process and that there is runway ahead of us, you can see here we've split our shareholder register into three components here, long-only passive and other with the other split between hedge fund direct ownership and other investors that sit behind prime brokerage at a bank. And the two takeaways are really clear here, one is long-only and passive ownership is going from 35% to 54%, the hedge funds that owned us directly are largely intact. The number is actually run on top of each other. That's 33%-34% and then there's been a rotation out of investors. And just on swap behind prime brokers into the long-only and passive investor base. So we think that this is a work in progress. We think over time, there's probably another 10% or 20% to come in the long-only and passive ownership as we get included in more indices, as we do more investor meetings and as people get some (inaudible). So let me conclude. We have a great story. We are one of a handful, a very small handful of globally scale players that can truly take advantage of the opportunities that we see in front of us. Our structural advantage is capital, permanent capital in particular and long-dated capital is an enormous benefit to us.

You've heard and you'll hear today about the culture that's within the firm of being nimble and innovating and looking at opportunities and being agile around that. We balance that with strong financial accountability, we -- as I mentioned, we have a strong framework and we hold people accountable to that if you set up a business if you invest in something if you innovate, then there is a P&L that follows that, it's not just the day one business plan but we go back to that every month, every quarter of the year and back test against that and we learn from that.

We have an exceptionally strong base of FRE that's growing and we think that there is incentive cash earnings to come on top of that as we look around the corner. So all in all, we think we're exceptionally well positioned and really excited about what's ahead of us. So with that I'll officially hand over to David Sambur and Matt Nord.

## Matt Nord, Co-Lead Partner, Private Equity

Good morning. I'm Matt, Co-Lead Partner for private equity and on behalf of David and myself we're pleased to give you an update on our private equity business. Private equity is a cornerstone of Apollo and has been for nearly 30 years. Over our history, we've demonstrated best-in-class returns and we've been able to grow our platform significantly. What separates us is the differentiation of our strategy. That's one that focuses on value. We benefit from being part of the Apollo integrated platform and the market and industry insights that provides and we've demonstrated an ability to be flexible across market environments. Our track record has helped us to earn the trust of the world's leading investors and we have tremendous continuity of our team and our strategy. You can see the benefit of all this, is that over our history, we've acquired over 160 companies. We currently manage over \$78 billion in assets under management. And our latest funds Apollo Fund IX has nearly \$25 billion in commitments.

We also benefit from having long duration capital, this gives us the ability of the time when we want to invest and realize our investments. For Apollo, it provides steady and growing management fees and there's tremendous continuity and consistency with our LPs across many of our funds. So, if you look at how we've grown, we've been able to increase the size of our flagship private equity funds. We've been able to add new industry verticals such as Apollo Natural Resources, given our expertise and commodities, we've been able to expand geographically with funds such as

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AION, our Indian private equity fund, which enabled us to expand our presence in emerging markets. And we've been innovative as well with products such as Hybrid Value, which gives the Apollo platform increased ability to invest across the capital structure.

We've always prided ourselves on being a firm for all seasons and the growth of our private equity platform has clearly demonstrated that. We've also been very methodical in our growth, so we focus on areas where there was a market need and where we would have a sustainable competitive advantage and we have promoted from within to lead many of these new strategies. So the Apollo DNA is consistent across everything that we do.

Since our last Investor Day, we've been able to grow assets under management within private equity to \$78 billion, so 10% annual growth and we've been able to grow FRE to \$368 million, so 24% compounded growth and we're very confident in our ability to continue to grow off this space. This is a slide that we're extremely proud of, it's our track record in our flagship private equity funds. So over our history nearly 30 years, we've been able to generate a 39% gross IRR and 25% net IRR and being able to do this for so long across so many different cycles really speaks to the sustainability of our franchise.

So how are we able to do this? The first is the continuity of the team. On average, senior partners within private equity have worked together for about 20 years. So the same group of people that have generated these returns in the past are here managing the business and will help to generate them going forward. The second is the consistency of our strategy. We have a value-oriented strategy, which we believe provides the best risk-adjusted returns across all market environments. And third is our flexibility. Within our private equity funds, we have the ability to invest across geographies, across industries and across the capital across the capital structure. So we give ourselves the broadest possible funnel of opportunities, so we can be as selective as possible.

And looking forward given the strength of the team, our connection to the broader Apollo platform and our ability to adjust to different market environments, we feel that we are well positioned to continue to perform.

## David Sambur, Co-Lead Partner, Private Equity

Good morning. As Matt said, our limited partners recognized that we have a truly unique platform in large cap private equity and a truly unique investing process that's produced industry-leading returns for over 30 years. And our goal isn't to be the best in a single quarter or a single year, but our goal is to be the best in every fund and across all funds. We're focused on longevity.

And this is really how we do it, we have unique integrated model that you've heard about today that leverages our talent across private equity, credit and our real assets business. We operate with no walls across our business. We have an intense focus on seeking out value. We do this by trading complexity for price in all of our investments. We invest across all market cycles and across the capital structure in both equity and debt securities, which is truly unique when you think about our peer set.

And after we find these opportunities, we apply our value creation playbook to improve operations and oftentimes unlock significant multiple expansion in these bargains that we've generated through our proprietary sourcing techniques.

We utilized multiple strategies to source opportunities across market cycles. So as Scott alluded to earlier, we're not a hammer seeking a nail and we're not seeking to force a very rigid investing style across any market environment we see. Rather, we have three and now four key investment strategies that we deploy opportunistically depending upon what market environment we're living in. Today, if you look at the left-hand side of the page, we are seeing a lot of deal flow in what we call opportunistic buyouts and specifically, we're seeing a lot of deal flow in public to privates.

So if you think about the public markets, they create an interesting opportunity for us to find value in that -- you see value stocks -- stocks that produce good cash flow being significantly undervalued versus growth stocks. These are the exact types of companies that we want to buy, they generate steady and sustainable cash flow. In today's environment, we could buy them at significant discounts to historical valuations and fundamental values and they provide cash to



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service debt, which is a important ingredient in our business.

So, we're seeing a lot of great deal flow in public to privates, we've been the most active large cap PE firms in executing public to private, we've deployed \$15 billion of equity capital over the past three years, and these are some of the examples of the companies we bought. These are great investments for us not only because we're buying them at such great prices, but we are continually surprised to the upside on our ability to improve the operations of these companies and generate significant cost savings out of these companies.

Second category that we've deployed in our private equity funds historically has been large complex corporate carve outs, and this is an area where we use our large fund size to our advantage. Oftentimes, we're the only solution provider or one of two solution providers that's available to help these large corporates meet their objectives by selling off would it oftentimes an underperforming business that's been starved of capital, these are great investments for us because there is a long protracted negotiating period where we could eke out value through the contract that we negotiate and oftentimes by these companies at significant discounts to what we think is intrinsic value because we're effectively solving someone's problem for them.

And then the last strategy we've employed historically in our PE business, I think is truly a crown jewel of our franchise, that's our distressed equity investing -- the distressed debt business. In this business, we truly are unparalleled and there is no one that does what we do. About a third of our capital historically has gone into this business and in these investments, we've created companies at the lowest multiple of cash flow with the lowest loss ratios and with our highest IRRs. And we do this by really pouncing on the market when an opportunity presents itself. This is not a business, we were only in this business, we would have been sitting around for the last 10 years doing nothing, but luckily, we have all these other strategies to deploy capital profitably. But when the market environment presents itself, this is a business we need to pounce on.

We're currently tracking 120 credits across our private equity business, we update these credits monthly and get together quarterly and we're sitting and waiting -- wait for the market opportunity presents itself. When it does, we'll be ready. In the last cycle and just four discrete months, we deployed 70% of our capital that was deployed in this strategy. So we need to be ready to act when the markets there.

And then the last strategy, which is a new one that we're very excited about is our Hybrid Value strategy, this was a new \$3.2 billion fund that we've raised last year. We've already deployed about a third of this fund, this is a great tool that's meeting an unmet demand that we saw in the market for structured equity investments and capital solutions. And through the deal flow that we generate through our industry teams, we're finding a lot of really interesting opportunities in Hybrid Value. So what we're known for is our proprietary sourcing and buying companies cheap and that truly is a differentiator of Apollo, but we also deploy a really proven tool kit to enhance the value of these companies, and we're continuing to refine and improve this model. Just a couple of key highlights I wanted to point out to you on this page.

The first is in Talent acquisition. So much of what we do in terms of being able to deploy our value enhancement strategy really relies upon the management teams that run our companies. We've changed 70% or upgraded 75% of the management teams in our Fund VIII, our most recently fully deployed fund. That's a lot. And to do this, we've recently hired a Head of Talent, Glenn Stevens, who helps us leverage best-in-class sourcing capabilities and really looks at acquiring talent for our portfolio companies, much like we search for investment opportunities.

The second is portfolio company operations. This is a team, we've built up in 2010 and we continue to enhance. In Fund VIII alone, we've generated \$2.5 billion of cost savings, that creates tremendous value for our funds. And then portfolio company M&A, this has always been a hallmark of what we do at Apollo. In Fund VIII with a 90 follow-on transactions buying an additional \$25 billion of enterprise value, we're very acquisitive. These are great ways for us to not only deploy follow-on capital in our funds, but to buy down our multiples post the initial acquisition through value generative cost savings and we don't pay up for platforms. This is usually stuff that's gravy on top of our initial underwriting.

And the last thing is technology. We recently hired a team to really help us take technology and innovation to the next level of our portfolio. We're looking at the point data science capabilities, sophisticated data analytics and taking

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advantage of machine learning and AI to not only source investment opportunities, but really allow these companies to be more efficient.

Then the last thing, a lot of what we do, it's focused on generating returns. And as we spoke about that earlier, those returns are often on behalf of pension funds. We also believe in doing things the right way and we've really been an innovator and a leader in ESG for a long time. We get all of our portfolio companies focused on charitable giving, volunteering and sustainability initiatives. We have a very robust tracking and reporting mechanism that our limited partners say is best-in-class and we've been awarded a multiple awards in the industry and this is probably not something you think about -- when you think about Apollo, but it's something that we're very proud of.

## Matt Nord, Co-Lead Partner, Private Equity

So to add upon what David just said, we're extremely proud of the work that we do at Apollo and across the private equity industry. As an industry, we employed millions of people and we hope to provide companies with access to capital. We've also generated over \$1 trillion dollars of GDP growth and many of our investors are pension plans. So the returns that we generate help to provide a more secure retirement for police officers, firefighters and teachers. So there is a much broader social benefit to the work that we do here at Apollo.

Turning to a deeper dive on Fund VIII. Fund VIII was our 2013 vintage fund with \$18 billion in commitments. We had a very deliberate strategy with Fund VIII and that was in a high price environment to buy good companies at the right price and not put too much leverage on them. And you can see that we were able to achieve that. When the market was paying over 10 times, we create Fund VIII at 5.7 times. And the benefit of that, was that we only levered our companies in the mid-3s. So we were able to generate very attractive risk-adjusted returns while taking less risk at the same time.

So where are we today. We feel very good about where we are with Fund VIII. It's still a relatively young fund. So on average, we've only been invested in our companies for about 3.5 years. Our companies are performing and we're still building a lot of value, mainly through cash flow and the operational strategies that David just walked through. So we're very confident where we're headed, it's just going to take a little bit more time for this fund to season.

And this is a more detailed roadmap for Fund VIII. So we created this portfolio well. Since then, we've grown earnings and we paid down debt. So there's less leverage across the portfolio today than when we closed. The fund is marked at 1.5 times and that's assuming pretty conservative marks. Looking forward, we have a very tangible path for future value creation. So we're not relying upon a lot of growth late in the cycle and we don't need multiples to remain high. We have a lot of downside protection this month.

The go-forward performance will continue to be driven by free cash flow generation and some of the operational uplift that you heard earlier. So the outlook for this fund is still north of two times our invested capital and that's still a very conservative exit assumptions. And we're also seeing continued momentum in the portfolio as well, in the third quarter, Fund VIII was up 8%.

So as the performing -- excuse me, as the portfolio continues to perform and Martin said this earlier, we are entering the monetization cycle. So far, Fund VIII has returned \$6 billion of capital and we're seeing continued progress. We recently took a variety of public and we've announced the sales both Presidio and Tranquilidad.

What's interesting to note on this page is that we've been able to exit our investments through IPOs, sales to strategic buyers and sales to financial buyers as well. So we're not reliant upon the IPO markets to find exit opportunities. What's also interesting is that, of these companies, on average, we bought them at six times cash flow and we've exited them at nine times cash flow. So I think that does demonstrate that we have an ability to find value on the buy, and we are getting paid for all the operational uplifts that we do with our companies.

Fund VIII is still largely unrealized and so as the portfolio continues to season and perform that will drive performance fees for Apollo, and given where we are in the cycle, we're very focused on pulling forward realizations and returning capital. We intend to continue to grow our market leading position by growing our flagship private equity fund with successive fund raisers based on our strong performance track record. We're also continuing to expand our industry

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strategies like in our natural resources strategy and potential future strategies beyond that. We continue to grow in select geographies with geographical funds like our India effort that you've heard about today several times, and we continue to innovate in new products like our Hybrid Value Fund.

When we innovate, we're focused on designing products that provide companies and our investors with holistic and creative solutions that meet the market need. And we're looking for opportunities where there is market demand investor interest and where we believe we have a competitive edge like in Hybrid Value and several other areas that we're focused on in the near-medium future.

So to sum up, we're very proud to continue the legacy that our founders had left us in our private equity business. We have a global franchise that symbiotically integrated into our credit and real assets business, we have a growing platform that will continue to expand in adjacent products and grow through new geographies. And we are recognized by our limited partner community for really having a differentiated investment strategy that produces leading returns across cycles, and the best risk-adjusted returns overall. And we have a experienced team, long tenured and a really great bench of talent backing that team up.

So with that, I'd like to introduce Anthony Civale and John Suydam to talk about our credit business.

## Anthony Civale, Co-Chief Operating Officer

Thanks, David and Matt, and good morning. I'm Anthony Civale. I've been with the firm for 20 years, half of that time I was a Senior Partner in our private equity business. In the last 10 years, I've been working closely with Jim in building and managing our credit business managing our credit business as Lead Partner. And in January as Leon mentioned, Martin and I began partnering together as Co-Chief Operating Officers of the firm.

We're collectively very proud of what we've built with credit, we think we've delivered exceptional investment and financial performance and that we're strategically very well positioned. So we'll talk about that. The roots of that business date back to the founding of the firm in 1990, when we managed \$3.5 billion portfolio of high-yield bonds. Fast forward to 2007, we managed \$10 billion in assets, largely in distressed debt strategies, and I'll talk a lot today about how much that's grown and evolved.

Simply put, we think we've built the world's leading alternative yield investment platform, that business has been built on the foundation of delivering differentiated investment performance, which uses the same value-oriented mindset and power of the global integrated platform across that's common for all Apollos businesses.

Growth, we see growth in our assets under management. Since the firm's IPO, we've grown assets at 30% a year, that's been balanced and diversified. And as Jim mentioned, it's really been driven by macro tailwinds benefiting alternative managers as well as our own differentiated investment performance, and also the uniquely innovative growth strategy and platform that we have that leverages our strong permanent capital vehicles.

We've also seen substantial and sustained growth in fee-related earnings of about 35% a year, which has driven significant value for shareholders and something we're really proud of. That's been driven through scaling our assets across all of our businesses as well as generating significant operating leverage. Martin mentioned it earlier, but 3,000 basis points of margin expansion in the same time period. We couldn't have done any of this without an exceptional brand at Apollo as well as an unrivaled bench of talent with longevity at the top and depth throughout.

The business has been highly diversified and we benefit significantly from scale. So the strategy over the last 10 years has been to build the broadest credit platform in the world that can find value in any market environment, and that can allocate between asset classes, sectors, geographies, structures to find that value.

We now today, cover 4,000 issuers, which means our portfolios are highly diversified and that makes us less susceptible to any concentrated risks. In fact, our top position represents less than 40 basis points of our assets and no more -- no sector represents more than 5% of our assets. As we've heard the talk about today a lot, we do pursue a unique yield origination platform strategy which I'll talk about and has added an incremental layer of diversification.

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Our diversified investment strategy also brings diversification for our limited partners, because it gives them access to assets that they can otherwise access elsewhere, which makes us a really valued and unique partner to them.

Scale, in credit scale it's critical. It gives us access to opportunities, consistent deployments and allows us to generate excess return, which also allows us to be a solutions provider to our partners. We're one of Wall Street's largest clients. We're Top 5 counter-party for all of the bank loan and high yield desks on the street, that brings with it visibility to opportunities, attractive financings and better allocations.

So the scale and diversity of our business is a true competitive advantage. We've got over 300 investment professionals and origination officers coming into the office every day to try and find differentiated opportunities. We carry a big bat in the market, we can commit to transactions of \$2 billion or more, which puts us in a really rarified air to be a solutions provider.

The breadth and the scale of our platform, as well as focus on origination engines are true strategic differentiators for us. And when those are leveraged through a robust credit process and risk management process, exceptional returns can be generated. We're really proud of this performance, Leon mentioned it earlier, 8% across everything we've done over the last decade, which is 300 basis points better than market indices.

Now 8%, needs to be put in context. What is our objective? Ultimately, two-thirds of our portfolio is investment grade or investment grade equivalents, and for all of you who know IG corporate bonds trade today in the market around 3%. So 8% is a significant premium over IG.

Similarly, our insurance company balance sheets are trying to generate 4.5% to 5% return across the entirety of their balance sheet. So again, 8% is a significant return achievement and something we're really proud of.

The performance you can see is across all of our asset classes and sectors and ultimately is the underpinning for why LPS continue to allocate capital to us and why our insurance companies continue to outperform.

So let's talk about risk. It's critical for our process, it's something that our management team spends a lot of time focused on. Annualized loss, given defaults across our asset categories are a fraction of what we find in the market. This is deliberate. Our investment strategy is deliberate in protecting the downside, it permeates everything that we do at Apollo. And it shows you that the performance that we just saw on the previous page of 8% is driven by prudent credit selection, not by taking excess risk. We think the portfolios that we put together are very well positioned less than 2% of our portfolio is in subordinated risk.

Thankfully, we've also avoided many of the pitfalls of credit investing over the last five or 10 years, whether that's the energy crisis in 2015 or the volatility at the end of last year, and in fact, we've used those as opportunities to be offensive to deploy capital and to raise capital to grow the business.

Ultimately, the performance on these last two pages really is accomplished through the intersection of our people, our process and our platform. And is a reflection of our unique strategy.

So, stepping back before the financial crisis, investors in credit had a binary decision depending on their view of the market environment, they could allocate to high yield, they could allocate the distressed. But what we've seen over the last 10 years is an incredible broadening out of the asset class. It now represents a mainstay allocation with the investors portfolios that we think is going to deepen and broaden and continue to grow.

So against that backdrop, what makes Apollo different? You've heard about some of these elements already. We think we're strategically very well positioned for these four reasons, the breadth and depth of our investment capability in origination, an unrivaled team, the scale of our market position and innovation.

So this is a busy slide, but what we're trying to accomplish here is to talk about the breadth of our investment capabilities across the corporate, structured and real asset landscapes, both private and public markets. And in many ways we're trying to dispel a myth about our own reputation that's being largely distressed investors. When you peel back the onion, 90% of what we do in credit is seeking to generate single-digit rates of return. We hear all the time



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from clients and prospective employees, shareholders, that there are very surprised by the scale of that endeavor, and hence our pride in generating the 8% return, I talked about earlier.

Of course the roots from our distressed business remain, and something we're proud of and forms the intellectual property of how we invest, but at the end of the day, the business has really been built around generating conservative, senior secured, alternative yield investments for our investors.

With the breadth of these capabilities, we can now also customize solutions for our clients to deliver the best differentiated performance to them. The breadth in particular makes us a terrific manager for Athene and for Athora, because we can speak to across the balance sheet, create customized solutions for them, create the right strategic allocation and dialog with them. And for Athene, as Mark mentioned earlier, generating a manageable amount of excess spread is very significant. So for example, we manage a \$20 billion business today and private investment-grade corporate fixed income securities. That business is great for US insurance companies and generates typically at 25 basis points to 50 basis points spread premium over publicly traded investment-grade corporate bonds. That 25 basis points to 50 basis points in the Athene Athene math results in 2.5% increment to our ROE on that business which is meaningful.

Okay. Marc, Marc spoke a lot about the the origination engines and it's a key pillar to our business strategy. It's a strategy that takes a lot of time. It takes a lot of resources, experience and we've been at this for a long time and it's truly differentiated. You don't typically find these yield origination platforms in investment management businesses, they're typically owned as Marc said at banks and at commercial finance companies. They require infrastructure, they require dedicated management teams and they bring with them complexity. But with that complexity, we're now able to generate 100 to 200 basis points of excess yield, which is highly valuable for our insurance companies and for our third-party asset management business.

We have a number of very vibrant platforms across our organization, whether that's in equipment leasing, aircraft finance and many others, and we have a long pipeline with our strategy teams of an incremental yield platforms that you'll continue to see us investing in.

All told, these platforms originate an annual volume of \$60 billion a year. It's a remarkable number when you step back and think about, \$60 billion. We can take that \$60 billion and deploy it into our insurance companies and into our third-party asset management business, which drives differentiated performance. We are at a really unique place to be able to pull off the strategy, because we can take our global private equity expertise and sourcing, negotiating and managing businesses and combine it with credit expertise on the asset and risk side and take those two skill sets and deliver them in a powerful way to our clients.

And as Jim mentioned, these origination platforms are also highly valuable to us because they provide what we call the tri-sector, three way investable opportunities for us. We can invest in the equity of the company, we can invest in the debt of the company, which often brings an excess spread, where we can sign up for the forward flow of incremental whole loans that the business is going to generate over time. So ultimately, our investors are constantly looking to us to solve problems and yield origination platforms are critical tool in our toolkit.

So in the same way, that we are focused on broadening out our investment capabilities, we've also spent a lot of time focused on how we have diverse pools of capital that are looking for different things. So we are an equally good buyer of rated investments as we are unrated investment. And we have a tremendous amount of capital looking for unconstrained deployment.

We also pay very close attention to deploying capital into assets for the liquidity, the liquidity of the assets, matching the liquidity of the capital. So 75% of our capital and credit is permanent in nature, which allows us to invest across the capital structure, asset liquidity and asset type spectrum to deliver a differentiated performance.

Our unrivaled permanent capital vehicles that you've heard a lot about today, ultimately, allow us to weather market dislocations, find attractive entry points and also importantly allow us to stand in to take advantage of opportunities as other markets participants fade away. So when we think about combining the breadth of our capabilities with the diversity of capital, we truly can be a one-stop solutions provider to partners, making us strategically very well

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positioned.

People, investing is all about judgment at the end of the day. So we think the team is a critical element to success. We have a very talented senior group of folks with 27 years of average experience led by Jim and that team has been together for a decade doing this at Apollo building the business and growing it. The Group has embedded a really deep level of credit culture within the organization and it's built on bottoms up fundamental analysis disciplined downside protection, using a robust credit process, time and tested risk -- and risk analytical framework to mitigate risk.

Certainly in credit, we benefit considerably from the global integrated platform. Our relationships with our private equity and real assets brethren allow us to leverage their relationships, their deep sector experience, which allows us all collectively to make better investment decisions. And we're continually looking, this is not a static group, we're continually looking to add additional talent to broaden out our capabilities and deepen our bench. So, just yesterday we announced publicly the addition of five senior leaders within the credit business, building out our Insurance Solutions Group and our European yield investing businesses, very talented folks, each of whom bring 20 years to 25 years of experience that will add to our breadth of capabilities, and we expect that's going to continue.

Innovation, we've heard a lot about innovation today. It's certainly something that runs throughout our DNA and something that we're really proud of. We try and innovate to be creative, and to drive incremental investment performance and growth. We like to find ways to monetize our platform in a way that meets our market need and can partner with our clients. So there's lots of examples of that. But back in 2013, we saw an opportunity to marry investors thirst for yield with our proprietary origination. And we did that in the multi-sector credit space, which was an established base and we put our take on it. We created a franchise called total return fund that was looking to generate LIBOR plus 6% to 8% returns. Our insurance company clients ceded that, that product we had early adoption from the institutional consulting community. We've grown that franchise now to north of \$7 billion of capital, and we've outperformed. We've outperformed because 40% to 50% of the fund in franchise comes out of our proprietary origination, our direct origination business. And then when we step back and think about where does that \$7 billion go, multi-credit funds from traditional asset managers have between \$30 billion and \$50 billion of capital and they -- and our performance is 175 basis points to 200 basis points better than those funds. So we think there is really significant upside.

Another example of that is MidCap. We recognized early on that the banks were going to be pulling back in a number of different areas and that there was going to be an opportunity for non-bank lenders to take share with the right amount of capital. So back in 2013, Apollo and Athene purchased MidCap Financial, which was at that time a \$2 billion direct lending platform focused largely on the healthcare space. We set out to diversify investment capabilities and sponsor finance and franchise finance and real estate lending. And that \$2 billion franchise today stands at \$14 billion, and it has originated \$27 billion of assets, which are really attractive for our insurance companies and for our third-party accounts.

So innovation is certainly something that all of our business is focused on. Our business leaders and our strategy teams come in every day thinking about the next total return, the next MidCap. And ultimately the environment at Apollo is one that fosters diversity of thought and creativity to drive growth.

Ingrained also within the firm is being nimble and opportunistic to take advantage of the market dislocations. So we've constructed the platform to take advantage of secular changes in the market like the non-bank lending market, we've talked about previously, but also from market dislocations. And in fact our business tends to see step changes in growth during periods of market dislocations.

So in the financial crisis, we deployed \$50 billion of capital taking advantage of the bank shedding assets and some of the chaos in the residential real estate security market. We're trying to have done our homework ahead of time as David and Matt just talked about, to be calm in times of crisis and to have conviction to go deploy in those moments. Being nimble though and opportunistic also requires you to have the right amount of capital at the right time. So we have a growing amount of capital, that's on the sidelines waiting to be deployed in periods of short dislocations like we saw in December of last year and a growing amount of capital even greater amount of capital, \$70 billion of buying power available to us to grow in more sustained periods of volatility. So we think, we're really well positioned for the future.

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We're proud of the performance and we're excited about future growth and investment performance.

So with that up, I'll turn it over to John.

## John Zito, Co-Head of Global Corporate Credit

Thanks, Anthony. So, my name is John Zito, I co-run our \$45 billion corporate credit business and I really want to spend the next 7 to 10 minutes, focused on the two questions we get asked most by our investors. One is Apollo has grown very quickly, how much risk has the firm taken to -- in credit particularly to achieve that growth? And two, Apollo has grown very quickly, is it -- can we replicate that type of growth? And Leon said, we can replicate. We want to walk through why we believe we can continue to replicate this in credit.

So first on risk, you'll see here on the left, our risk culture is rooted in four core pillars: liquidity, diversification, structure and process. I'll start with liquidity. You've heard a lot about permanent capital and credit, 64% of our capital is permanent. So in credit particularly, most things that go wrong is when there is an asset liability mismatch, we've structured our entire business so that we don't have an asset liability mismatch. And particularly, we're having discussions with issuers, we can have a much different approach in terms of how we provide solutions. We can underwrite risk over the long term. We can underwrite risk with a culture of asset coverage, covenants, things that are important to any sort of credit investor and everything around focused on really just capital preservation.

In addition to having permanent capital, we also have \$8 billion of dry powder and \$50 billion of overall buying power at any given time. So in times like December of 2018, which Anthony just mentioned, we can actually use that excess capital to generate excess spread by being a liquidity provider to the markets and in a time when you have ETFs, a multi-trillion dollar growth of daily liquid products having capital set aside to opportunistically go into the markets. That is the time when you really can create excess spread by being that liquidity provider in all types of markets.

Diversification, we've talked about it, we cover 4,000 issuers, no single issuer represents more than 37 basis points of risks to our overall balance sheet. So, no single investment really represents undue risk for any of our mandates and no single sector represents more than 4.6%. (inaudible) the important thing that goes on at our firm across diversification is obviously we are diverse across our holdings, but really are information. Our proprietary information across different businesses, whether it would be private equity real assets or credit that's the ultimate risk mitigated for us. We're making -- we're committing capital. When we're sizing capital, we will decide whether or not to do that investment where we can have our own proprietary diverse set of information that our firm and only our firm has. We think that's a unique perspective and particularly fits into our risk culture.

When you look at structure, many people think of us as a subordinated distressed lender. 78% of our risk is senior secured, 60% of our risk is investment grade. So whenever you stress test our portfolio, when you look at it typically you'll stress tested it will be a mark-to-market stress test that won't be an asset loss stress test and that's the most important thing, particularly for our insurance balance sheets, what is the probability of loss given where we are in the structure, given where we sit in the capital structure. Typically, we have multiple turns of equity coverage below wherever our investment is in our capital structure.

And last but not least process, 16% for our loan business, particularly and many of you have read in the FT and other newspapers that the loan business today is littered with risk and the documentation is very weak. That is the weak -- the documents are weak, that does not mean that there is nothing to do in the leveraged loan market and if you look at our approval rate in our loan business today, we're only approving 16%. For our risk slide, I usually say we're passing on 84% of our loans that we see on the platforms. We look at every loan that comes to market. We've been extremely selective within our investment process. We run daily stress test on the portfolio. We run attribution both on an alpha and beta basis.

So we're tracking everything how it's reacted historically and how we think it's going to react in the future and we have an independent risk function both with the Chief Credit Officer and with separate and distinct risk function that works outside of the front office to actually have a checking balance between the portfolio managers and the risk business.

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So that's for risk, I'll spend the next couple of slides just focusing on growth. Having multiple hundred billion growth targets is something that you can't wake up and just say we're going to go grow multiple hundred billions without having a structural tailwind. If you look at the structural tailwind in our business, it really starts with being able to generate excess spread. We are the most innovative alternative yield investor by size and scale that really -- that -- I can tell you firsthand from our conversations just five to seven years ago going into an issuer and really talking about providing a 10% or 12% or 14% solution, that's a very difficult conversation to have with an issuer.

When you can go talk to an issuer and say we can provide you, liquid or liquid, senior secured [ph]4, 6, 8 or 10, that conversation is much more of a partnership. And we haven't talked much about incumbency, but in credit as we grow and as we continue to generate excess spread that enables us to strategically go acquire more insurance balance sheet, more permanent capital vehicles capital vehicles and as we acquire more permanent capital vehicles, our balance sheet grows and then we become the incumbent lender for a lot of these issuers. When you're the incumbent lender whether it's ABL, whether it's a senior secured loan, whether it's in real estate, whether it's in commercial real estate, the likelihood you're going to lose that asset is very low. And as there is more concentration amongst credit managers particularly alternative managers, I suspect whoever has scale is going to have a distinct advantage as you continue to grow the credit businesses.

This is probably my favorite slide. If you look at what's going on in equity markets and Josh has talked about this in the past, but you've gone from 8,000 public companies to 4,000 public companies and 4,000 public companies to 8,000 private companies. So today, there has been a major privatization of equity markets.

What I think we're seeing today in the credit markets it's really the early days of the privatization of credit. And when you compare our growth to the growth of the underlying asset classes, our growth doesn't look all that dissimilar to what's going on with what we do every single day. Over the last five years, direct lending has grown from \$200 billion to \$400 billion. Private investment grade have grown from \$60 billion to \$100 billion. Private structured credit has grown from \$500 billion to \$1.1 trillion. There is no doubt that there is a privatization going on in the CUSIP market. There is a privatization going on of almost anything that generates a coupon, because in an environment where you have very low yields, everybody is looking to grab the collateral, everybody wants the collateral on their balance sheet to generate income.

So when you have \$17 trillion of negative yielding assets, owning that collateral, owning it on a non-mark-to-market basis, that's extremely advantageous for many of our LPs, and particularly for those who need to generate excess yield. So if you look over the next five years, the estimates for the growth are more than double for all of these asset classes. And I suspect given our expertise in all of these things and we've only listed three, we really invested in multiple different asset classes but the theme is consistent. There's going to be an ongoing privatization of credit markets and we're set up to take advantage of it.

So how we've taken advantage of it and actually fund structures, insurance, Mark talked a little bit about it, my colleagues and partners will talk about it a little bit more, but we've set a fund structures like ADIP and Athora. We've raised over \$11 billion of capital in insurance. And that has been a big growth driver for us and will continue to be a growth driver for us. Origination platforms, we have over 50 origination platforms on our pipeline today of things we're looking at. We'll continue, we just purchased PK Finance, PNC's Franchise Finance business. I think that's the early days and we believe there is a major pipeline as we continue to grow those.

And last is direct lending. The most direct lending historically has been the middle market sponsors \$200 million to \$400 million loans. We -- over the last six months, we've seen a much a major trend that's changing. And that's many of you may have seen our \$1.8 billion loan we made to New Media and Gannett. This is a 600, 800 pro forma EBITDA company that we provided a \$1.8 billion loan to. That is a major shift from where the direct lending market has been historically.

Today, the CUSIP loan in bond market is \$2.6 trillion. We suspect that 5% to 10% of that market will go private over the next five years, which presents a \$100 billion to \$200 billion opportunity for us. We think it will be amongst three to five alternative firms will get the majority of that market share. And given that we're the only firm that actually has a CUSIP business that's next to a direct origination business with no walls. We think that's a unique set up for that



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transition. We think it's a major growth opportunity for us in the overall market.

So just to conclude, overall credit both Anthony and our thoughts. We're the largest alternative credit platform with significant permanent capital vehicles. We're patient, we're a solutions provider and we're extremely flexible in terms of where we can go in both yield, and we're financial disciplined. If you look at our risk culture. We're focused on capital preservation. We have multiple origination strategies which will continue to grow. We've been innovative and we continue to grow new products. And we have a deep bench of credit professionals with strong sector experience across the board.

So with that I'll pass it to Gary to handle the Q&A.

## Questions And Answers

### Gary Stein, Head of Investor Relations

Right. For those on the web, we're just going to need a minute here to set the stage for Q&A. We're going to have Leon Black, Jim Zelter, Scott Kleinman, Martin Kelly join us back on the stage.

For those here in the audience. We have a few people standing in the isles with microphones. If you do have a question please ask -- please raise your hand, please just ask one question for the time being. And when you begin your question please provide your name and your affiliation. Again, there are a lot of people on the web listening. We want to make sure they can hear the questions and know where they're coming from. Thanks. So, Alex.

### Alex Blostein, Analyst

Great. Thanks very much. Alex Blostein from Goldman Sachs. So maybe just a couple of top of the house questions. When you guys talk about the \$600 billion in AUM target, can you talk a little bit of about what kind of investments you still need to make in the business to really achieve that given the fact that, you guys already effectively at leading FRE margins 57%, that's obviously the highest in the group, but it's also quite high of a margin relative to the asset management space broadly. So what kind of investments you need to make, where the margins could ultimately go once you get to the \$600 billion. And Leon, you mentioned strategic initiatives in addition to fundraising. Can you give a couple of examples of what that could look like?

### Leon Black, Founder, Chairman and Chief Executive Officer

Okay. Thank you. We're coming up for air in the group and we're going to make sure this is an interactive event. So glad to start engaging with all of you. How do we get to the \$600 billion. Well Josh is going to spend some time on that, but broad brush, if we're a \$325 billion today, which is where we are, with the closing of our Dutch transaction, which should happen hopefully in the very near future which it's been announced that would get us to about \$355 billion, right there.

I think what you're going to hear and Mark alluded to it earlier that and when Gary and Jim Belardi and and Matt Michelin come up, you're going to hear the incredible growth potential we are seeing in the insurance sector. We think there is \$1.5 trillion if you will, of opportunities that are going to emerge, especially in this low interest rate environment to be able to pick off, strategic add-ons through M&A. As you know, we've already raised \$3 billion of the \$4 billion that we've projected to raise in our ADIP sidecar if you will, with Athene. And given the capital they already have on their earnings power, that and itself means that we're already are going to have the dry powder to do at least \$100 billion of add-ons there.

We actually project that Athene and Mark did allude to it. That's at \$178 billion today, Athene and Athora combined. We'll be able to double over the next five years. So that kind of gets you to \$525 billion. And which really means that

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Bloomberg Estimates - EPS  
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to get to \$600 billion between product innovation in credit and you've heard a lot about today the expansion possibilities, there where we think we're still in early innings. As in addition and you haven't yet heard, but you're going to after this section about real assets where there is a lot going on. We're already at \$37 billion of AUM there between infrastructure and real assets both credit and equity side, there is an opportunity really to double there.

When you add that all up it's not very difficult over five years, even with run-off in some of these areas to net another \$75 billion of AUM. So I think it's a very credible targets, given the platform we've already built and the team that's in place and the dry powder and the firepower to take us from the \$325 billion today to \$600 billion. As you may remember, five years ago, we aim to \$250 billion to \$300 billion and we actually exceeded that. And I'm hopeful that will be the same situation here where we could even do better than the \$600 billion.

## **Jim Belardi, Chairman & CEO**

Okay. Great.

## **Craig Siegenthaler, Analyst**

Thank you. Craig Siegenthaler, Credit Suisse. I have a credit one for Jim. Jim, as I look at your credit portfolio companies like Merx, PK AirFinance, it was mentioned in last presentation that there are still some white spaces there. So what other areas of credit can you expand into and pickup capabilities that can help us speed your insurance business?

## **James Zelter, Co-President, Chief Investment Officer, Credit**

Well, just taking Merx, for example, we have had Merx. Merx is actually a leasing platform PK is really a debt finance platform and they're both focused on the commercial space and -- but certainly as we've found whether it's in our middle market business when most people in this audience hear about direct lending, they think of middle market sponsor lending. And Anthony alluded to it, but what we've done in MidCap is we have an ABL expertise, we have life sciences, we have healthcare real estate, we just did the franchise finance business. So Mark alluded to others, but certainly in each one of these core competencies, whether it's direct lending like we have at MidCap or like we have or like we have right now in our aviation business there is -- whether there is regional exposure, there is asset class exposure. So going from the leasing side to a debt originator. And so, when we think about that across the breadth of our platform, we're seeing it right now in our structured credit business. Structured credit really used to be a cash CLO liabilities business but certainly we're doing things in the synthetic space. We're out taking sports media rights in Europe and securitizing those.

So I think, that we have been able to find, it's really product adjacency and product expertise that when you really dive down into -- aviation is a large word like commercial real estate like the equity market, but you find industry specialist, industry expertise. And that's what leads us when we think about going from where we are today to \$600 billion. We're not talking about massive new parts. We have our three large parts of business private equity, credit and real assets and we believe we can this go deeper and deeper and broader in those in terms of industry, regional and product specialization.

## **Leon Black, Founder, Chairman and Chief Executive Officer**

I think, five years ago, we had about seven or eight credit products, today, we have close to 25. As I said, we think we're still in fairly early innings over the next five years. We could certainly add another 15 or 20 to that number.

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## Patrick Davitt, Analyst

Hey, thank you. Patrick Davitt from Autonomous Research. I appreciate all the detail on Fund VIII, and obviously it's good to see some recovery in the marks there. But one of the pushbacks I get from investors I talked is the disconnect between the prices of the public debt of a lot of the larger positions there with the mark of the actual fund. And I guess Shutterfly has been in the news a lot this week. So how should we think about that disconnect and get comfortable that these disconnects between the marks on the public debt and the actual equity positions aren't portending a negative mark on the equity position?

## James Zelter, Co-President, Chief Investment Officer, Credit

Yes. That's a fair question. The -- so as Matt and David showed you we're carrying the portfolio today, what we think is a pretty conservative set of valuations. Valuation, we think of it as a science, it's probably an art and a science. And just as a firm, we've always tended to stay on the conservative side of that valuation. So I feel really, really good about where those marks are. As far as your question on the debt. There is a few companies, particularly when you look at the types of companies that Apollo really looks for these value opportunities that we go to buy and then spend one, two, three years doing a bunch of things that Matt and David talked about. That's the opportunity. If those things weren't there, we wouldn't be buying these 6 times and 7 times, we'd be buying them at 10 times and 11 times or we wouldn't be buying them someone else would.

So when we bring these things to market, it's an interesting time in the debt markets where oftentimes a software company that's being sold for 15 times with 9 times leverage, it might actually have an easier time financing then a storied credit, a storied situation that requires a little more time in these roadshow meetings to really get through, which often means that the debt is really only held by those people, who really take the time to figure that out. So I wouldn't take too much to the -- read too deeply into the early trading prices of some of these names. I mean, you picked Shutterfly in particular, I mean that's a situation we feel incredibly good about.

## Leon Black, Founder, Chairman and Chief Executive Officer

I would just also remind everybody that we're pretty good on both the equity side and the credit side, and we're opportunistic and oftentimes the market doesn't get it. These are companies I think we know better than anybody, because we own them and we're inside them. And one of the hallmarks we've had is also to buy in when the market doesn't get it, and basically, average our costs or price down. We do it through the same fund if it's one of our portfolio companies. But just as we approach that opportunities through third parties, we also do with our own credits. As Scott said, we're incredibly comfortable with these companies and think that that will be meant really good.

But if the market gets into a mood, and then we've seen a lot of strange moods where growth has been so much more highly valued than cash flow generating solid companies. The deltas have been, in our view, crazy in terms of the multiples. Those are opportunities for us both on the debt side and the equity side.

## Gary Stein, Head of Investor Relations

Great. Probably time for one more question. Although I would say, our model today is, this is Part one, and after these questions, we're going to have Part 2 and there'll be another Q&A. But I would say given all the -- what's been talked about this morning, which is a lot that we go actually a few extra minutes on the Q&A, now.

## Mike Carrier, Analyst

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Mike Carrier, Bank of America. If I look at the growth you guys have put up, and then given the \$600 billion, like it's pretty impressive in terms of the opportunity. I think a lot of that has been driven by the performance of Apollo, historically. So when you look at like incentives, particularly on the investment side and probably, more so in credit and private equity, because I think private equity will understand like the carry incentive. But in the credit business, like how are the incentives aligned maybe across the cycle, not just for growing the assets or current investment returns, but when things get more challenging? So just how you think about that?

## Leon Black, Founder, Chairman and Chief Executive Officer

Well, I would say a couple of things. And it's not as if we haven't had some credit, I don't want give negative cycles, but last year, fourth quarter even in 2015 and energy 2012 and 2013 in the euro, there have been periods of credit dislocation that our performance in our portfolio has thrived, capital has been raised and our business continues to expand. So what Marc was really describing is, in my view, what we do in private equity in our opportunistic business that really are -- those are investment platforms and a DNA. And what we're talking about in our yield business is creating process and origination, where it's not one personally having a strong view on X, Y, Z sector that's an outlier, it's fitting a box, creating a process that we can replicate time and time again.

So for us, what we've really done in partnership with the theme what drives a theme day-in and day-out, Jim Belardi and his team Bill Wheeler, NIER. NIER is the topic. And so we've embedded that objective across our origination platforms, we've embedded that objective across how we invest day-to-day. So we really -- there is an accountability, there is process for those communication, which we think from our perspective is really creating these vehicles in origination. So from our perspective, Martin described, I mean, having the ability to have the human capital coming from the sell-side or the buy side, one of the great attractions to our platform is you can operate your craft.

Yes, we are constantly looking to raise additional capital, but capital is there, capital is safe and capital is sticky. So your ability to actually build out your team be a long-term investor, create a platform that has outsized returns, we think that in alignments there and it's tied very well to how we budget our business, current compensation, but also owning equity in our firm as a public company. These are all benefits that we get long term.

So I think we've been able to attract, train and retain across a variety of challenging environments. And the reality is, there actually has been a lot of dispersion this year in the credit markets. You don't hear about it. We see what's going on in the broadly syndicated loan market. It's been 30 names that have gone down more than 20 points this year alone. We didn't buy 20 -- we didn't buy 23 of them we never bought, and of those seven we got out of five of them a couple of years ago. So our process is definitely working.

## Gary Stein, Head of Investor Relations

Hi, yes, Glenn?

## Glenn Schorr, Analyst

Hi, Glenn Schorr, Evercore ISI. So I think a lot of what you outlined today so far is deepening the penetration with your current LP base by expanding strategies, and of course massively penetrating the big insurance channel. I'm curious, the high net worth as a client base has a huge asset dollar amount, and is massively under penetrated to everything that you've talked about today. So I'm curious about how the organization is thinking about that long term. I know it's probably a longer sales process, but where is the high net worth channel fit in?

## Leon Black, Founder, Chairman and Chief Executive Officer



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So traditionally we've had great success with some of the branded -- the ultra-high net worth channel throughout there, where we have done a specialized product whether it's a fund -- one of our PE funds, one of it's our EP -- European Principal Finance Fund. And so there -- as you're correct in pointing out, the ultra-high net worth family office channel is one of growth for us. We think they can be a driver in our business going forward, and I think what you will see is continued penetration, maybe not in the mass market, the daily liquidity. But for those channels that can afford us access of the ultra-high net worth -- high net worth, where \$1 million or \$2 million[ph] investments in our vehicles are appropriate.

I think you'll see us continue to expand that. We have a very -- when Stephanie gets into her conversation presentation later on today, she'll allude to that as well. But certainly, that is part of our business, and while we don't plan to stake in the ground, say, retail is going to be hundreds of billions. We think that could be a very much of an incremental growth product for us in terms of how we think about our business. So, bottom line is, we're established, those channels we are looking for brands and expertise and experience, we checked the box on those three dramatically, and now it's really having the dialog and access with them to expand. But I certainly think, not in the things that we've talked about for the insurance, there is not a mass market for the 3% to 6% product, but for the 8% to 12% product, and then the opportunistic products certainly great demand for that.

## **Gary Stein, Head of Investor Relations**

All right. We have time for one more question.

## **Brian Bedell, Analyst**

Thanks, it's Brian Bedell with Deutsche Bank. Question for Leon and Martin, just in terms of the comments on the monetization cycle improving for Fund VIII and Fund IX in the near term. Maybe if you can talk about the -- sort of the near-term, say one to two year opportunity for that -- for example, we are back in that phase of selling everything that's not nailed down a few years ago with these funds. And then what the cadence of FRE growth. Obviously, FRE growth is very strong in the last few years and the outlook obviously for the five-year plan is also very strong, but if we think about that type of environment over the next couple of years, if we have very strong markets and you're able to realize a lot of the realizations from those funds, and potentially not deploy as much in a strong environment, what is that one to two year FRE cadence looking like? Thanks.

## **Leon Black, Founder, Chairman and Chief Executive Officer**

I'll take the first part. And well, I think Scott mentioned earlier that -- going back to my not nailed down comment six, seven years ago, clearly in the low interest rate environment, where we reside we have the inverse of that with a very high-priced environment that we're all dealing with. So in some ways it's easier to sell than to buy right now. Having said that, when we think of private equity, one, we like to buy right, we like to be able to build real value, both organically and cost cutting in M&A opportunistically in those companies and then choose the right time for multiple expansion if we can get it on the sell.

So as Scott mentioned, our fund date, where most of the portfolio resides today, is three and half years young. Normally, we're in a monetization mode in years four and five and six. So I think, we are entering what should be a much more robust period, where we're building up the value of these companies and they're becoming right to sell, and there is the right environment to be able to do that at least currently. So our view is, as these companies ripe and we should be harvesting. And when we look at the portfolio, clearly, what we see is that there will be a little more at the end of this year, and we think the next two years are going to be, assuming, which is a real assumption, that the markets stay robust, there should be a lot of harvesting. I think we had our PE advisory meetings yesterday, and I think we projected \$10 billion and \$9 billion per year over the next two years of monetizations from PE. So, that would be the plan.

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## Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer

All right. Let's head on -- so on FRE, look we plan for and we shoot for a mid change FRE growth rate in each year. And the variables of plan to that are many. One of them is, what's the investment in the platform, which I spoke to in my comments earlier. That's our discretion, whether or not we spend money to invest or not. We're not necessarily trying to solve for a fixed margin every year. But when you add it all together, and when you factor in the sell down and the headwind from sort of from losing management fees on Fund VIII as that monetizes out, that's all built into our plans.

## James Zelter, Co-President, Chief Investment Officer, Credit

So I'd also say just margin wise, we're already at the top of the heap by a lot, vis-a-vis our peers, where our margins are. So we don't expect as much in dramatic growth in margin. But as we scale from 325 to 600[ph] [0:01:39] scale helps us with margins. So we think there is still a bit more room for growth there in the five years ahead.

I think, we're out of time. But as I said, you're now going into high gear in Part two. And you're going to hear a lot more about real assets. But also a very important section on insurance, which obviously you know is critically important part of our firm and the future. And then finally, I think, Josh, is going to sum it all up in terms of growth, what it means in terms of the numbers and most importantly, what it means in terms of our valuation or as we would say today are under evaluation, and why we think there is a huge upside here for everybody here. So, thank you.

## Gary Stein, Head of Investor Relations

Great. We've just asked to take a quick 10-minute break. We'll try to reconvene here back at 11:10 AM Eastern Time. And for those on the web, just give us a few minutes, and we'll be back at 11.10 AM. Thanks.

And if we could ask everyone to please take your seats. Great. Without further ado, I'm pleased to introduce our real assets team we've got Scott Weiner and Skardon Baker.

## Scott Weiner, Senior Partner, Head of Global CRE Debt, Chief Investment Officer

Thank you, Gary. Good morning, I'm Scott Weiner. It's nice to everyone came back in after the break, we always worry about that following the break. I am Head of Apollo's Commercial Real Estate Debt Business based here in New York and I'm joined on stage by Skardon Baker my partner who heads our Principal Finance Business based in London. And we're going to discuss Apollo's youngest business real assets, also known by Leon it's actually as a third leg of the stool.

Real Assets is comprised of four complementary businesses, which are brought together this past January under one leadership framework in order to maximize our synergies. These businesses include commercial real estate debt, principal finance, real estate private equity and our newest business infrastructure. Together we have \$37 billion of AUM, two-thirds of which is permanent capital. We are an integrated global platform with 95 investment professionals sitting together in 12 offices around the world, supported by an additional 240 asset management professionals.

Since we last met with you in 2014, real assets has doubled its AUM. This growth was a result of three key factors. First organic growth of existing businesses, driven by the rapid expansion of permanent capital in the CRE debt business. For example, ARI our public mortgage REIT, for all you stock investors that's ARI on New York Stock Exchange those take away from your APO allocation, but it is a nice yielding stock. That mortgage REIT has grown from \$2 billion AUM in 2014 to nearly \$7 billion today.

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In addition, commercial real estate debt is a very attractive asset class for Athene and Athora and as their balance sheets have grown, we have grown with them. Finally, we have completed successor funds for our real estate private equity and principal finance businesses, including most notably EPF III of \$4.5 billion fund, which closed in 2017. The second area of growth, which we'll talk about more detail later, is expansion into new complementary businesses including infrastructure, credit and equity, triple net lease and core plus.

Lastly, we have grown through M&A, where most notably we acquired two real estate platforms in Asia, greatly expanding our real estate presence in that region in the world. We believe this pace of growth will continue and we expect our AUM will double again in the next five years.

## Skardon Baker, Senior Partner, European Principal Finance

Thanks, Scott. I imagine some of you were probably surprised to hear that Apollo now has a \$37 billion real assets business. That's quite a big change in our business mix since our last Investor Day. And today, real assets is a significant standalone franchise, a fast growing business segment and a crucial third leg in our overall business strategy. But that growth is not coincidental, it's really been driven by the power of our platform, which is grounded in five differentiating factors.

First, we operate a global integrated platform, we have boots on the ground in US, Asia and Europe across 12 offices, and we manage our business in a coordinated fashion. Real assets is Apollo's most global business. That allows us to marry local presence, crucially important in the real assets business segment with global insight across products, markets and asset types.

Second, we have first call relationships. We've leveraged the power of Apollo's brand to develop strong connectivity with key players in our markets. The advisors and brokers, owners and operators and debt and equity providers real assets at its core is a relationship-driven business. This allows us to get off market transactions, repeat business in early first looks.

Third, as you've heard a lot today, we have access to flexible permanent capital, whether it's on behalf of Scott's REIT or on the balance sheets of Athene and Athora, we have patient long dated capital that provides us with staying power across what will be an inevitable real asset cycle at some point.

Fourth, we have a global reputation as a creative flexible capital solutions provider. Whether it'd be private equity, credit or in our case, real assets, embracing complexity is a part of Apollo's DNA. One of our investor said to me the other day, this investor happened to be a military veteran, he said, Apollo is like the special forces of alternative investing, the firm you call for the most challenging assignments. And that analogy resonates because particularly in the midst of tough circumstances and tough deal situations, that's when you often find misprice risk and the opportunity to trade complexity for value.

And finally, we have a comprehensive asset management ecosystem. With Apollo's routes in distressed investing, we understand value creation is a daily commitment. And we sweat every one of our investments. We are a high touch firm. Today we have over 240 asset management professionals who are all laser-focused on preserving capital and maximizing returns.

Now, if you step back for a second and look at our real asset spectrum here, what you'll see is our product lineup spans all size of risk and return and duration. Now we will cover each one of these products in greater detail. But what we really. But what we really want you to take away from this slide is the impressive range of our capabilities today. Most people don't think of Apollo is the type of firm that would originate a 10-year, 4% fixed mortgage, invest in a multiyear net lease solution or purchase a long-dated European core plus real estate asset. But our REIT and the balance sheets of Athene and Athora allows to do precisely that. Equally important, a lot of the products you see on this slide we directly originate that's crucial. It allows us to make primary fundamental risk assessments without distribution costs.

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On the opportunistic side of the spectrum, we can provide equity debt or structured hybrids to owner-financed single assets, developments, portfolios of property of non-performing loans as well as operating platforms such as logistics, hotels and pipelines.

Now, we think our performance speaks for itself. We have provided our investors with strong returns across each of our strategy. That's engendered enormous loyalty and enabled us to strategically grow our business. Those returns range from high single-digit since inception for our commercial real estate debt business to 20% gross returns in our European opportunistic business.

Now I'd like to turn it back to Scott. And he is going to start with a deeper look at our product range.

### **Scott Kleinman, Co-President**

Thank you, Skardon. The commercial real estate debt platform, which we found 10 years ago is the business that I run. We've built a full scale direct origination franchise and we are one of the largest non-bank CRE lenders in the world. We provide capital throughout the US and Europe, and we're actually on track to originate over \$10 billion this year. We have a reputation for being one of the best in the business. We are flexible, reliable and creative. This has enabled us to deploy over \$32 billion of capital in 360 different transaction. 96%, I'll say it again, 96% of our AUM that we manage is for Apollo's permanent capital vehicles. This is a management fee business focused on capital preservation and downside protection.

We can lend across the risk return spectrum from low leverage senior loans, which as you can see on the chart is the vast majority of what we do to higher yielding mezzanine loans and everything in between. And we have the ability and the capital to do so.

We're a balance sheet lender. And I think similar to what Jim said earlier, this is not CUSIP business. What does that mean? It means that this is a business built upon relationships and reputation. We don't buy investments in the secondary market, we originate predominantly or everything that we do, which enables us to effectively underwrite and structure our deals capturing all the deal economics for our investors and fully service our borrowers many who become repeat clients.

Lastly, given our experience relationships in the real estate debt markets, we are a major resource for other groups within Apollo, most notably when it comes to financing real estate that they own. However, consistent with Apollo's operating philosophy, we won't lead to ourselves. And what would a real estate presentation be without a picture of a deal. And I can think of no better one than actually one block south of here, for those that don't recognize it this is at 57th and fifth on the corner. This is a recent deal that we did a few months ago for repeat borrower, they happen to be one of the world's largest real estate asset managers, they had a maturing loan and so we worked actually with a foreign bank to provide the debt, the foreign bank signed up, the senior loan, we originally signed up the junior debt. During the course of the closing process loans can take anywhere from -- two to three months to close, this bank ran into regulatory issues and actually walk from the deal, leaving our client with the ensuring loan and no capital which to pay it off.

There are not many lenders in the world that can step up and write \$800 million check in any time frame, let alone the short one, but we could. We are able to bring the power of our platform to the table. And in the process, we created better economics for our investors, while diversifying the risk of the transaction. We tranche the loan into a mortgage, a senior mezz and a junior mezz with different risk return hurdles that met the returns and risk parameters of our investors within Apollo, and the borrower was able to deal with one source and they had certainty of execution. The result was a happy borrower and happy investors.

### **Skardon Baker, Senior Partner, European Principal Finance**



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I'd like to turn now to our opportunistic equity businesses. First, our European Principal Finance business or as we refer to it internally EPF. EPF was founded about 10 years ago, and it has quickly grown to be the second largest closed-end fund product at Apollo behind our flagship PE business. In many ways, EPF is a very Apollo-esque product. It sits at the crossroads and taps the expertise of our skill sets and credit, real assets and specifically financial services and private equity. And it was really boring to capture a range of opportunities arising from distress, deleveraging and the realignment of financial service operating models in Europe. Themes that you will hear a lot about today, I'm sure. Those opportunities include non-performing loans, opportunistic and distressed real estate non-core and capital and efficient assets and a variety of platforms and asset types that no longer work on regulated balance sheets.

Now, let me give you a few examples from EPF's recent investment activity, which speaks to our grounding in a value oriented investment philosophy. First, Project Golden. In 2017, EPF purchased a EUR300 million portfolio of residential real estate assets from Portugal's largest insurer. These were not distressed assets, quite the opposite, they were trophy properties owned for decades by this insurer. And so you might ask yourselves, why did they decide to sell these assets. Short answer was that new regulations specifically something you'll hear about in the next presentation, Solvency II, made long-dated residential assets very unprofitable on a regulated balance sheet. As it turns out our private equity colleagues own the second largest insurer in Portugal. They were keenly aware of this regulatory shift and the Chairman of their company facilitated an introduction, which led to a bilateral transaction. And that speaks to the power of an integrated platform.

Second is project Helix. Project Helix was a EUR5 billion portfolio of non-performing loans that we purchased from Bank of Cyprus. The transaction just closed this past summer for \$1.2 billion, or an 80% discount to the loan balances. And it was also about a 50% discount to look through real estate value. I think those two figures speak a lot to Apollo's focus on value.

Now, in addition to those purchase metrics, the portfolio itself had a 1,000 borrowers, 4,600 pieces of property and we carved out a large loan servicing business of over 100 people and we embedded them into our asset management ecosystem. We did all of this in a compressed timeline as the bank faced a regulator breathing down their neck to complete this transaction, sign it before the end of last year. Now that to me speaks to our ability to find value in the toughest of circumstances and to deal with complex situations.

I want to turn now to our real estate private equity business. We have two regionally focused boutique fund platforms, they target value add strategies in the United States and Asia. In the US, we tend to exploit less traveled thematic niches, such as senior housing and last mile logistics. We've committed over \$1.5 billion of capital through two legacy funds and co-investments. And we recently held the close on our third fund, which is a target size about \$1 billion. In Asia, the team invest across multiple pathways and geographies to take advantage of misprice risk. Since 2015 when we entered the Asian market through a manager acquisition, we have committed over \$700 million into structured debt and equity investments in China, India, Thailand, and then most recently in Australia. We see continued opportunities in Asia, driven by compelling demographics and growth and we will continue to invest there in the years to come.

You've heard a lot of focus today about the advantages of Apollo's permanent capital business model, including stable fee earnings, the ability to invest in long duration assets, one other advantage of our permanent capital model is the ability to see new business lines and drive growth. Let me give you two real-time examples of that. In 2017, we established a US net lease business in partnership with Athene. The business has quickly grown to \$1.3 billion in AUM and it really supports Athene's desire for long-dated stable yield, but equally important, it plays to Apollo's strength and analyzing the corporate credit quality tenants.

Just last month, we launched the second product a European core plus real estate product in partnership with our European insurer, Athora. The core plus business has a head start on its growth with EUR1 billion of embedded AUM that is a byproduct of Athora historic M&A activity, which will result in day 1 fee earnings here.

Now we're investing heavily in both of these new businesses with resources and senior hires, some of whom we saw earlier on the page. The reason we're doing that is because these two businesses aligned very nicely with Athene and Athora's duration and yield targets, they have compelling large addressable markets. And we believe we can quickly scale them to make them attractive to institutional third-party capital.

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## Scott Weiner, Senior Partner, Head of Global CRE Debt, Chief Investment Officer

Speaking of growth, our newest business in real assets is infrastructure. The market opportunity is enormous. Global annual infrastructure investments need to increase by \$800 billion in order to keep pace of ongoing capital requirement. For all of you had the pleasure of fly into LaGuardia this morning and are still recovering from driving on our roads and bridges, you understand how massive this need is. Private capital has a huge opportunity in this sector, it relieves public funding needs, unlocks Realized Value and facilitates rapid execution.

You might ask how is Apollo taking advantage of this market opportunity, while we already have. We have deep expertise across the subsectors of infrastructure and have actually made over \$9 billion of investments through our private equity, credit and Natural Resources businesses, in areas such as power, communication and transportation. These investments have been structured as both credit and equity. And in 2018, we launched a dedicated infrastructure Opportunity Fund to take advantage of a \$1 billion diversified asset pool that we acquired from GE.

We are dual tracking the expansion of both our equity and credit strategies and we actually recently announced new leadership for the business. Industry veteran, Dylan Foo, will join Apollo in January. Dylan has over 20 years of experience in infrastructure investing and he will co-head the business which are strong, he will also co-head Apollo's Natural Resources business.

Dylan and Geoff are supported by a team of 14 investment professionals. We're very excited about this opportunity and we think we are well positioned to capitalize in this massive market.

## Skardon Baker, Senior Partner, European Principal Finance

So where does real assets go from here. Today, the business manages \$37 billion in AUM, generates over \$200 million in management fee revenue. We have four primary growth channels. First, we can grow our existing products by shadowing our permanent capital base in the case of our real estate debt business and through successor funds in our closed-end fund products. Second, we can quickly scale our product launches and net lease core plus and infrastructure to make them accessible over time to third-party institutional capital and to also grow with their insurance company balance sheet partners.

Third we think we can capitalize on untapped potential in new markets. Our real estate debt business for example, is an inflection point in Europe. And we believe we have significant room to grow in Asia both in terms of products and markets. Finally, as we have demonstrated through the acquisition of the GE infrastructure business, Scott, just discussed, we can and will grow opportunistically through M&A as long as the targets align with our philosophy, culture and our product priorities. In short, our general goal is a double our AUM in our management fee base in the next five years.

So what is important for you to remember about our real assets business. it's a critical third leg of Apollo's business model. It has significant standalone scale, a differentiated approach and strong growth prospects. We have a best-in-class global investment team as unified by common value oriented philosophy and we have a commitment to excellence in both asset management and investment performance.

I want to thank you for your time. And now, I'd like to turn it over to Gary Parr and Gernot Lohr to discuss Apollo's interference opportunity.

## Gernot Lohr, Senior Partner

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Good morning. It's actually exciting to be here. And the reason I say that is, you know the topic is insurance and you're still here. So this is obviously a very important part of Apollo. At Apollo, over the last years, we have built a leading insurance-related capability. It includes our ability to acquire low-cost insurance liabilities and an expertise in investing regulated balance sheets with enhanced return and sophisticated risk management. That has led to of course substantial growth, which you've seen before in our assets over time. What we're going to talk about now is our enthusiasm going forward about the same prospect for this type of growth.

Notably, the growth has also lead to substantial revenues to Apollo, the fees we earned for managing the assets in the insurance companies now exceeds over \$500 million on a run rate basis. We've invested and developed our expertise in six sectors. Those are -- those you can see here, but I'll just spend a moment to describe and give the highlights. First, the largest dedicated annuity spread insurer in the US, which is Athene and now it has the capacity of ADIP. Second, the largest capital amount invested in a Continental European dedicated life spread insurer, Athora. A Top 2 US variable standalone company, very vulnerable. The largest investor in life settlements in the world, FCI and the various funds there, and the Top 2 dedicated property and casualty runoff company Catalina. These are world-class leading positions that we have in multiple sectors.

So within these sectors, these are not monolithic sectors, there's a lot of different liability types in these different sectors. And when Marc Rowan talks about spread lending, the piece that he left out is actually that you don't really know what your cost of funds is until it's over. And this can go horribly wrong in the insurance industry, if you don't know what you're doing. I mean, we talked about GE. GE had \$17 billion of liabilities in its employer -- in its insurance business and the next day they woke up they were \$15 billion short. This can go horribly wrong.

So it's important to actually understand these liabilities, very, very well and they are very different. For example, Athene, the individual annuities in the pension risk transfer business are fundamentally different liabilities. Yes, they are spreads, but with respect to who your customers is, -- how long these liabilities are, they're very different, look at Athora. In Athora, it's very different, we have a business that has a profit share in Germany, we have liabilities in Belgium that don't have a profit share. And this makes us whole thing actually very, very complex but we have the unique understanding to actually deal with this complexity. Because we actually have as Apollo and infrastructure that can deal with this. And there is about 2,000 people at Apollo and the related insurance companies that actually allow us to get our hands around that complexity. And all of this is actually administered by the insurance Solutions group at Apollo, which sits right in the middle between the assets and the liabilities and it's, so to speak the connective tissue between what we're doing on the liability side and what we're doing on the asset side; on one hand, on the sub-advisory side to Apollo credit; or in the other hand, where we actually build the bespoke origination platforms that you've heard of before.

And all of these little pieces allow us to become a unique solutions provider and I'm going to talk about two examples where we've provided solutions that other people could not provide and how does it gives us a unique competitive advantage competing for the liabilities. First one is the Voya transaction, and that was an exclusive dialog between Apollo Athene and Voya. So what was Voya's problem. Voya had \$35 billion variable annuity business that the market really didn't like. It's high volatility, it looks horrible in your GAAP financials when you hedge it and Voya wanted to get out of this. But it's not easy to get out of \$35 billion of revenue, just because there is no natural buyer for that. What we did, we actually created a new natural buyer from scratch venerable to actually buy this and on top of this Athene came in and actually took over \$19 billion of fixed annuity, was a one-stop solution for Voya.

Voya announced a \$1 billion charge as a result of this transaction, the stock went up 15%. So sometimes taking the pain actually allows you to really achieve great outcome, was a great outcome for Athene as well as well as for Apollo. As a result, we have the new assets under management, Athene could deploy capital at very attractive returns.

Similarly, a solutions provided, in this case for Zurich. Zurich had a book of -- very large book GBP1.4 billion of UK employers' liability reserves. So what is that that's hearing loss, that's the asbestos, that's cancer from asbestos. And GBP1.4 billion is a big concentration risk that many people are not willing to take. So we looked around and we actually looked at depth at the liability. So when you look at this, what the risk is it's an impaired longevity risk. And we in the building, have a very large owner of impaired longevity is the financial credit funds run by Jamshid Ehsani.

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So what we did actually, we teamed up FCI with Catalina to offer one-stop solution for Zurich. And that allowed Zurich to actually get out of this in one conversation with one entity, and also get the regulatory certainty. There's one thing that's critically important in order to be a regular -- in order to be a solutions provider is regulatory credibility. And there's probably nobody out there who has the same regulatory credibility that we have. We've come through the process and are basically regulated by every major regulator. They understand who we are, they know how we act they understand that we need to be prudent and thorough, because we have regulatory contagion risk. If something happens in Portugal, the next day the regulator in Bermuda will know about it. So there is a conduct and the fact that we have this regulatory in contagion risk, also on the other hand gets people very comfortable that we will act as really good stewards for the policyholders. And has really helped us in getting our regulatory approval processes done. And all these ingredients that we have in place and again this regulatory footprint is one of the core competitive advantages that we have. And everybody at Apollo is very, very focused on maintaining good regulatory standing and good regulations with these regulators, if these ingredients have allowed us to raise very, very large amounts of money for our insurance effort

Marc Rowan said, the \$11 billion, he was actually wrong it's \$17 billion that we've raised, since our IPO in 2011. And if you include not only equity raise, but also the equity generated at Athene, which we have ploughed back into the business and redeployed just in the last three years, we have added \$16 billion of capital. And we've delivered on these promises to these investors. Athene book value alone is growing at the 16% CAGR since 2009, when we created the business. We have delivered the gross MOIC of 2.4 times on all of these and the IRRs have ranged between 12% and 28% on these investments.

But there is risk in insurance. Some of these liabilities are very, very long. And whenever I show our balance sheet, I cannot resist to quote the Vice Chairman of AIG. In the financial crisis, who said Financial Services Accounting is very simple. There is the left side of the balance sheet, and there is the right side of the balance sheet. On the left side of the balance sheet, there is nothing right. And on the right side of the balance sheet, there is nothing left. And non actually highlights the core issue and the need for granularity, because you need to look at every single asset that's on the balance sheet.

We talked about the liabilities, how this can get wrong, right. Generally, you have a liability to asset leverage and P&C of five in life of 10 times. Memory GE example that got horribly wrong. So doing that to diligence and being able to do it is critical and the 2,000 people are the people who are doing this. The fact that we have that infrastructure in place allows us to do this with our own people and not with hired advisors that beyond the bill you can actually not trust because they have nothing in the game.

And the other part is structural protections. There's many thing you can do, you can ask for reserve protection, we've done this many times, you can leave certain assets behind, transaction services agreements all these really, really helped. But it's important to understand that sometimes you take on liabilities that will be with you for 20 years, so the importance of the diligence is paramount in this. Gary.

## Gary Parr, Senior Managing Director

Yes. So, last week we of course announced a very important transaction with Athene. We recognized that the dual-class of stock created issues for Athene. But we also heard concern from investors about the durability of the Athene relationship and that negatively affected Apollo's stock price. We moved to address both. The alignment really is the headline about this transaction. We increased ownership in both directions. We now are really tied together economically. We actually exchange two undervalued securities, one for the other. And in so doing, Athene has enhanced its capital position further and it's also more attractive to a wider investor universe.

We had -- Apollo have increased the capital and the positioning of one of our important allies, one of our important affiliates in being able to generate future returns and growth. We actually believe the transaction really was a win-win and value creating let's touch on that. The financial characteristics are pretty straightforward. The dilution to FRE and DE was about 7%. The increase in our book value was over 100%. In looking at what does that therefore mean to our



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stock price on the sum of the parts basis which many of you are used to think about our valuation as we do, it was about a breakeven proposition, neutral. However, as a number of analysts and number of you in the room actually have noted, our PE multiple of FRE should increase by 2 to 3 multiple points because of the confidence in the durability of the relationship. That's a value creation of 9% to 14% in Apollo stock.

It's also worth noting that Athene does not pay a dividend and therefore under our historical accounting methods, we don't show any equity accounting type earnings, indeed we show no earnings in that flow type basis. But indeed in the asset we now own Athene, will have the underlying earnings that are attributable or about \$400 million or about \$0.90 a share. So it's to turn attention to the size of market. You've seen this type of data from us and indeed from others in the marketplace. So I won't dwell on it. It is a sizable market opportunity and truly to use the term trillions is not an exaggeration.

Indeed, let's go to a little bit more detail. One of the comparative advantages we are most proud of you've heard some threats of it, but just to bring it together solutions, you've heard the word there is no one that has a competitive capability like we do to go across the insurance industry with solutions. Firstly, we have scale. We have the assets and liabilities The assets and liabilities far surpassing any of our peers in the end indeed, if you see again the reminder in six different sectors. The most anyone else has is two. And I think we should point out, there are a number of other segments where we have developed the expertise to look at acquisitions. It happens we haven't done one yet in some of the sectors, and that's a matter of developing just as was the case with variable and Apollo we have studied the variable industry for almost four years before we got to a really good transaction that made a lot of sense sometimes these things take time, but we invest in developing the technology and the expertise in advance.

The second point to make is what's in the box, we end our peers have less than 2% of the insurance market. So when you talk about growth potential and where opportunity is for sure, we have plenty of room is a market share matter goes, so let's go a little more to the market backdrop. The insurance industry continues to face a variety of pressures, real question of course is, will this lead to transactions?

Let's touch on, is to the one aspect really important about, will there be transactions and that is the decline in interest rates, you've heard about and spread compression that the industry is feeling. Interestingly, that really becomes a positive for us relative to even three years ago or five years ago and that is because as we earn a higher spread, we therefore have a relative comparative advantage that is enhanced in a low interest rate environment.

There are number of other pressures that are facing the industry I won't spend all the time on them, but as it was purpose so well, by being there and implementing transaction Solvency II is a dramatic shift in the way capital is being managed in Europe and creating any number of activities. It would be a lot of fun to talk about transactions that were current will be working on or developing it really be an interesting conversation. You know we can't do that with you at least we do it ourselves.

We do look forward to being able to tell you the case studies of things that we do get done over the next few years and indeed, we said it a place today, we're just like three years ago, we told you, we saw a lot of opportunity, we didn't know exactly when they would occur, but we knew there would be coming and that we had a comparative advantage and we get our share of activity we won't do everything in the industry, but there is plenty of change and plenty of things for us to find the right opportunities for us.

So let's do a recap, we have differentiated expertise and scale, we have execution credibility and we actually have a very small market share and what the opportunity is in the insurance industry, so that leads us to believe our growth is can be substantial and the several buildings the assets and liabilities far surpassing any of our peers and indeed, if you see again the reminder in six different sectors. The most anyone else has is two. And I think we should point out, there are a number of other segments where we have developed the expertise to look at acquisitions, it happens we haven't done one yet in some of the sectors, and that's a matter of developing just as was the case with variable. In Apollo, we have studied the variable industry for almost four years before we got to a really good transaction that made a lot of sense. Sometimes these things take time, but we invest in developing the technology and the expertise in advance.

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So let's do a recap, we had differentiated expertise and scale. We have execution credibility and we actually have a very small market share and what the opportunity is in the insurance industry. So that leads us to believe our growth is -- can be substantial and the several buildings blocks of that are from the existing capital in the capital base plus ADIP, we can -- the opportunity is we can invest and have over \$70 billion of assets and liabilities from existing capital.

When we look at the earnings from our various affiliates, over the next five years, they will be -- earnings will easily exceed \$1.25 billion a year even on a retained capital basis after share buybacks or other activity that will be over \$5 billion of capital that will support greater than \$50 billion of liabilities. And then if we raise just a small portion of the amount of capital that we've raised in the last three years in the next five years that would add another increment. All that is ends up to easily being able to double our assets in the insurance industry and our assets under management of course, nothing is easy. So I should put that asterix next to the word, but we do believe and feel confident we have the capital and we have the opportunities.

So with that, I'd like to -- now I will hand over to the next Insurance Section Jim Belardi, the CEO of Athene; and Matt Michelini, our partner at Apollo.

## Jim Belardi, Chairman & CEO

Good afternoon. It's great to see everybody. I'm here to talk about Athene and the unique strategic, powerful relationship Athene has with Apollo. So Chip Gillis, my partner at Athene and I founded Athene more than 10 years ago in Bermuda. And our founding was based on the business model at SunAmerica where I had worked for 20 years before Athene. And it was a good model to emulate because SunAmerica was the most successful insurance company in history, based on stock price performance.

So Chip and I traveled around the country looking for the appropriate partner to help us grow this new entity and got a fair amount of attention from Apollo and private equity firms and hedge funds and some of these other private equity firms and hedge funds actually offered better terms to management than Apollo did. But chip and I knew that Apollo had deep pockets, a global reach and if we were successful in executing on our business plan like we expect it to, Apollo wouldn't just be good for the original \$400 million of permanent capital to put into Athene, but multiples of it. And that's exactly what happened. Couldn't have picked a better partner than Apollo but I have to tell you when we started with Apollo, we knew they were great and certain things but had no idea the relationship would develop to what

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it is today, which I've been in the business 35 years. I've never seen a relationship like this. So comprehensive I mean, not just asset management with Apollo but capital raising, M&A sourcing and execution, strategic support and advice. Apollo has really gone from just our asset manager to our long-term permanent partner and largest shareholder.

Very proud of what we've built with Apollo at Athene. We've grown tremendously since inception. One of the key metrics we follow is book value appreciation per year. And our book value appreciation through the second quarter has been about 17% or through the third quarter, 17% per year close to triple what the insurance industry has done. We make a fair amount of money. After-tax operating income about \$1.5 billion per year. And we've grown our invested assets from essentially zero to close to \$120 billion.

I mentioned we emulated our business model after SunAmericas. It's a simple business model, make more on your assets than you're paying the liabilities, control operating expenses and add an appropriate amount of operating leverage per rating agency guidelines and that for us generates mid teens or higher returns versus an industry returns that can be as low as half of those returns that we generate or in that ballpark. It's about execution.

And our execution starts with the nature of our liability. By design, we have very long duration, the illiquid meaning, protected by surrender charges and withdrawal restrictions and low cost about 3% comes from liabilities. They come to us though the four robust funding channels, three organic. US retail flow reinsurance and then what we call wholesale which is the combination of our pension risk transfer business and our funding agreement backed note business. And our fourth channel is the one inorganic, which is the combination of block reinsurance as well as M&A transactions.

So with those type of liabilities, we're able to invest with certainty behind these without surprises coming down the pike. Customers hate surrender charges, so they don't surrender when there are surrender charges. We've outperformed any measure including the industry average on the asset side. We're a different type of insurance company by design and when we say different, we mean better, so we invest money better with Apollo. And our outperformance on the asset side is not come from taking excess credit risk. We take risk commensurate with what others in the insurance industry do but we execute better and our outperformance has really come from an asset allocation outperformance more so then we're better CUSIP pickers than others.

So if you look at the portfolio allocation on the left side, you can see two main categories of assets where we're different than allocations versus the industry. We have about 10% less in corporates and about triple the amount we have more in the industry and structures, combination of asset backs CLOs and RMBS. And that really stems from the environment when we started, which was after the Lehman crisis, structured securities were particularly cheap. Unfortunately, we took advantage of that and we are still benefiting from those locked in earnings from that allocation even today.

On the right side, you can see a 40 basis point outperformance versus peers in this low rate environment is pretty noteworthy and leads to about 400 basis points or more outperformance on a bottom line ROE basis. We're very considerably capitalized whether you measure leverage in financial form the debt to cap ratio, you can see we're just under a third of what the industry averages, 9% debt to capital versus 24% or if you measure it for capital to reserves, we were about 10.5% compared to the industry of 9.5% and that's an industry where we've called out separately double-A and A-plus peers meaning better rated competitors than we are we're still better capitalized than they were an A-rated entity across the board.

Because we have the most important single factor in the rating process capital, we've received consistent rating upgrade since we started focusing on it halfway through our 10-year tenure. I'm very optimistic, we're going to continue to get more ratings upgrades because of our capital position. I mentioned we're a across the board from three rating agencies and we will be A plus in the near to medium term, no doubt about it. And the benefit of that is lower cost of funding better counterparty can do more sizable transactions with entities. It just makes us a better entity.

Very optimistic about the opportunity set. If you just look at the opportunity set in the businesses we currently operating in, fixed-indexed annuities and fixed annuities is a \$1 trillion market. And we really built the Company in the early stages of Athene up to over \$60 billion on just M&A, but focused on that space where we can earn net investment spread.

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We're in funding agreement business, which we actually started in SunAmerica. It's a \$100 billion market. Pension risk transfer in the US, \$3.5 trillion market, early stages of pension solutions and we're now one of the leaders along with PRU and Met. And we're very optimistic and excited about the prospects in the UK for pension risk transfer. I think you'll see that being a growth area for us with high returns. I will mention though, no one in Athene has paid based on volumes. We get paid, if we make the returns. It's -- so as Marc Rowan said, it's net investment spread which leads to returns. It's the key factor we focus on.

I mentioned that capital is one of the competitive edges we have, and we have ample capital to really see the opportunity we just described and the size of the opportunity we just described. We try to keep things simple as best we can. We have a simple business model, and we also have a simple philosophy, which is buy more when things are cheap and less when things are more expensive. That's what we did after Lehman when we started. It was a great time to start. Structured securities were very cheap. We leaned in there. We leaned in some acquisitions at cheap prices. And that's our philosophy. But to do that, you have to have the capital available. And now especially with a ADIP and the ACRA formation here that we're coming to finish on, that's a huge value-add.

So you could see on balance sheet available capital on the left side, over \$2 billion of excess equity capital, \$2.5 billion of unused debt capacity, and then, we've closed -- Apollo is closed on \$3 billion of ADIP going to \$4 billion. And our available capital is going to be close to \$9 billion -- any kind of operating multiple that you want. We have essentially \$100 billion of buying power as we speak, which seizes a lot of opportunities.

So I mentioned how excited I am going forward. Part of the reason I'm so optimistic is because of our competitive edges, and I'll go through each of these in a second, but before I say that I think one of our key competitive edges is our management team. Bill Wheeler, our President; and Grant Kvalheim, CEO of our USA Operations; Marty Klein, our CFO, definitely the best in the business. Leon said, he believes his team is the best in business. I know our team is the best in the business. And our team is not just Athene, it's also a dedicated team at Apollo for Athene, and that really start with Marc Rowan. We're lucky to have strategic creative leader helping us every day get to the right answer. But the five attributes I have here, we take advantage of every single day that are real competitive edges versus others in the industry. And it starts with we invest money better because of the Apollo relationship. We seek out opportunity. We're opportunistic. We don't take on new credit risk.

Mark made a big point and properly so about the investment in asset origination platforms generating non-CUSIP assets. I think that could be the number one initiative at Athene right now to keep executing on that with Apollo, because that's -- there's more value add to Athene from asset outperformance than any other part of the business.

Our second hedge is our low cost and efficient funding, starting with our marginal tax rate being less than half of what the industry is. Third is we have a highly scalable infrastructure, where we can add large amounts of additional business with a fraction of incremental marginal cost. Four unlike most every other company in the industry, we have no legacy issues. We have no businesses we don't want to be in. We have no businesses that are dragging us down. Everything we're doing we want to be in is a pristine clean balance sheet, and that's a big deal.

And then finally, which may be our most important and powerful competitive edge through Apollo is our access to capital, the ADIP transaction being the latest example of that. And that's all powerful because firmly convinced in our space, the company with the most capital is going to win. And we're competitive people and we expect to win.

With that, I'll let Matt now talk about more aspects of the Apollo relationship with Athene.

## **Matt Nord, Co-Lead Partner, Private Equity**

Thanks, Jim. Some are under the mistaken impression that Apollo is simply a themed asset manager. This would woefully understate the relationship between the two organizations. One has to step back all the way to 2009 when Athene was started. Our credit business was only \$15 billion of assets. Today Athene stands at \$120 billion and our credit business is \$200 billion. Athene represented roughly 65% of that growth.



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In a sense, these two organizations have grown up together, developed over the last decade a partnership that is long-term, strategic and highly synergistic. On the Apollo side, we've invested significantly in our business. We've hired over 100 dedicated people, built several businesses, acquired several businesses, built infrastructure, launched new asset classes and acquired expertise to support all facets of Athene business. If you sat with us every day, you'd see two organizations that share a common DNA representing a partnership that is self reinforcing and one poised for the future.

What defines above all else a partnership? Its alignment. What we have created between Athene and Apollo is a paradigm unparalleled in the asset management industry or in the insurance industry. Compare for instance, best-in-class alignment between asset manager and client of 5%, mandated by Dodd-Frank or the EU Directive to the 35% stake, where the Apollo owns Athene's equity. What does that mean? That means that we own 35% of the residual value of every asset we put on Athene's balance sheet. And we just wrote a \$1.5 billion cheque to increase our position, which should demonstrate the conviction and the quality of the portfolio we have put together for Athene. Moreover, Athene represents 60% of the assets managed by our credit business and has been and will continue to be a significant driver of the growth. As you can see our fates are intertwined as partners.

When you look into the hood at the day-to-day, Apollo provides a range of services, no other asset manager provides its clients. This takes hundreds of people, who are either dedicated or who wake up every single day thinking about how to add value to Athene. It's kind of tough to conjure up an image of how this relationship works on a day-to-day basis.

So the best way to kind of put this into context is through a kind of a silly example. Let's pretend you're a car dealer and in this case Apollo. And two clients walk into the door, one client just needs a car and wants a one year or two year or three-year lease. The next Client walked into the door and says, I want to buy 60% of all of your stock forever. Imagine the different levels of service you would provide those two clients. Those two clients are fundamentally different how you would run and think about and operate your business. And I also imagined a variety of cars you could stock, and offer to all clients coming through the door knowing that you have a buyer for two-thirds of the stock. This is the decision that Athene makes every single day as the car buyer. When it decides whether it wants to be at 2% client of a \$5 trillion asset manager or 60% client of Apollo.

And as a result of this relationship, we do a lot for Athene. We do all the investment management. We do virtually all the CUSIP picking in every asset class. We do M&A sourcing and execution. We do capital raising. And as our strategic partner, Athene is afforded differentiated access to our platform.

Let's go service by service. First, we provide all the things that you'd expect an asset manager to provide, such as portfolio management that includes allocations, risk management, asset liability management, treasury to name a few. But we do it better than our peers. What you expect, because we've built a dedicated investment business to serve Athene, and they are our largest client. Remember, they're buying 60% of the cars on the lot.

Additionally, because we have built Athene and Apollo's Insurance Solutions Group as permanent partners, Apollo bears the cost of necessary infrastructure that Athene would otherwise have to build if it were to maintain optionality on choice of asset manager. And finally, we do all the CUSIP picking for Athene. We like this because we can control the risk box. We're going to ensure consistent allocation to the assets that Athene wants, and we are going to hire the best people to manage Athene's assets.

Turning the page. You'll see some other tangible examples of the benefits we provide to Athene beyond just Asset Management. I'll touch on a few. We have sourced, underwritten and executed all of Athene's M&A to date. With teams from our Private Equity business. M&A has represented more than 70% of Athene's growth to date, and has driven significant value creation for its shareholders. Gernot walked you through the Voya example earlier, where we created a brand new regulated insurance company to take that variable annuity risk. This was the linchpin to unlock the deal and continue the deal on an exclusive basis with Voya. We were then able to parlay that into an exclusive dialog with Lincoln to buy another \$8 billion of liabilities.

Next in partnership with our Client & Product Solutions team, we have reached \$5.5 billion of third-party capital for Athene to execute on its growth strategy. Most recently we are raising ADIP, which is a sidecar to help finance

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Athene's inorganic growth. With commitments today, the ADIP is at around \$3 billion. This makes it one of the largest insurance sidecars and provides Athene more excess dry powder than most all of its peers.

Everything we do for Athene is provided for under one simple fee construct. It charges 15 basis points on new assets, and then asset class specific fee for the assets we manage for Athene. Included in the base fee are all the services we've just been talking about for the last few minutes, portfolio allocation, M&A, capital raising, risk management, infrastructure as a service, just to name a few.

And then we also have an asset class by asset class specific fee that's set at a 30% discount to market rates to reflect the scale that Athene provides to our platform. Even if you ignored all of the non-asset management services that we provide for Athene under the low base fee, the total fees paid by Athene's still benchmark very well relative to what asset managers would charge to replicate this portfolio, this level of service and this level of infrastructure that we provide to Athene. You'll note with the sub-allocation fees that we get paid a little bit more if we find better yielding assets and we get paid a little bit less if we find less -- lower yielding assets, which provides us the right incentives in today's market to find the good risk adjusted yielding asset for Athene balance sheet, which is the scarce asset today.

And bear in mind, every trade we put on Athene's books we do so knowing that we are 35% of the first loss position. How do we maintain Athene's investment edge? Remember all we need is 40 basis points to result in wild success for Athene. We achieved this through allocation to assets that garner a premium on account of illiquidity, complexity or structuring risk that we here at Apollo have the expertise to underwrite.

We do not, and I repeat, do not take incremental credit risk to achieve these yields. But the safe yielding asset is today's scarce asset. So when Athene wants to be invested in an asset class in a big way or consistently through the course of the cycle, we build or buy the best team possible to manage these strategies for Athene, and because in many cases we have gotten into these businesses to serve Athene, we don't take meaningful third-party mandates that would dilute Athene's allocation to these asset classes. This is a very symbiotic relationship, because when Athene wants to grow they can do so knowing that they're going to have a consistent access to the yielding assets. And when Apollo wants to build a business, they can do so knowing that Athene will have consistent demand for the yield from that business or the assets from that business.

And this couldn't be more true than in our direct origination strategy, where we are buying platforms that originate non-CUISP assets and selling them to Athene. This is best looked at or understood through a case study of PK AirFinance, which someone talked about today in this presentation so far.

We have teams in our Private Equity Group and in our Insurance Solutions Group focused on funding platforms like PK AirFinance. Apollo recently announced a deal to buy PK, which is an aviation lending business with \$4 billion balance sheet and originates around \$1.5 million of assets per year. Apollo bought the platform and Athene bought all the assets as well as the right to buy all the future assets that PK originates going forward. The asset the PK originates can be pooled, tranching and raided, where you can see that the A-rated tranche of PKs assets earn an 86 basis point premium to the comparably rated liquid investment-grade CUSIP.

And the BBB tranche garners a 121 basis point premium relative to comparable liquid investment-grade corporate. And the default performance on PKs assets has been better than investment-grade corporates over the last 18 years and was even more so the case in 2008 and 2009 during the cycle.

Teams at Apollo are hard at work here to scale this strategy and will be important to support Athene's success going forward.

So the key takeaways. We've built the envy of the asset management industry and the insurance industry. And while others are trying to replicate it, many don't appreciate the difficult decisions one has to make to ensure success with this strategy. How to get the best out of an asset manager and to sync that up with how to get the best out of an insurance company, requires hard decisions around business focus, priorities and alignment. Saying no is much harder than saying yes.

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I have not seen anybody else in the industry ready to make these tough choices. And as such, I think Athene is well poised for continued success. Athene is kept a simple and focused spread business model. Remember, we only need 40 basis points on the asset side for success. And Apollo is a meaningful portion of the first loss risk on every asset on Athene's balance sheet. The runway for growth is long. Athene has significant excess capital, operates in really large markets and is poised to grow to \$200 billion much faster than it grew to \$100 billion. And Apollo is holding up our end of the partnership as well with plans to continue investing in ourselves to ensure that we are providing the level and scale of services to Athene as Athene continues to grow.

So with that, I'll invite my partner Stephanie Drescher up to the stage, who is Head of our Client Product Solutions Group.

### **Stephanie Drescher, Co-Chief Operating Officer, Lead Partner, CreditPicture**

Thank you, and thanks, everyone for joining us today. So, as mentioned, I'm Stephanie Drescher and I lead the client and solutions segment for the firm globally across the platform. I have been in the industry about 25 years now and the last 15 years at Apollo.

So you've seen this slide before today, and I wanted to give you the investor lens. As we speak as a team to hundreds, if not thousands of different institutions, families, pension sovereign foundations, you name it, around the globe but we hear a common theme, and it is a search for yield, and how they manage to generate the returns that they need for their portfolios, which on average tend to concentrate in that 7% to 9% range in order to meet their priorities, their liabilities, their expectations.

And it's not easy as they navigate today's environment. You've seen it and heard it, it was \$17 trillion of sovereign and corporate paper negative yielding in today's market. The role for private markets whether it's private credit, private equity plays an increasingly important role. So as we think about the nature of these opportunities and our clients, our investors, portfolios, we see the offer that it can generate and the importance that the historical returns have achieved in their portfolio allocations.

Not surprising therefore, that over the last five years, GP, that's focused on alternative investments, have averaged the greatest amount of flows from any prior five-year rolling cycle. And importantly, to all of us here today, we expect that trend to continue. When surveyed a very wide range of allocators, signal across this suite of private investments, continued interest and growth -- material growth. And from my seat, it is hopeful to see that these map almost identically to what we offer at Apollo. So when you look at the expectations for continued support and commitment to private equity, private credit, infra, real estate, you see that investors have spoken and we expect that sustainable growth to continue.

Another trend that we had heard a lot about from investors over the years, but now have seen an earnest is the desire for Investors LP's to concentrate their allocations to fewer GPs. And if we look at private equity, you can see that 80% of the flows now over the last 10 years have gone to the top 10% of managers. It's pretty striking. And for private credit, it's similar 70% of the flows have gone to the top 10%. Thankfully Apollo is consistently in that group, and we're certainly a beneficiary of this trend as investors increasingly look to platform, such as ours that have the breadth and performance that we can deliver.

So with these positive trends at our back, how are we positioned to stand out. And we're going to talk through several key factors, including how we offer solutions to deliver our integrated platform, the growth and scale of our investor base, how we're continuing to grow our strategies and then importantly of the new product innovation. So let's kick off with the team and who is focused on this globally. I believe that we are organized to have a highly advantageous approach to the market. We're global, we're centralized across the organization and we have great tenure, which allows for depth of relationship as we meet our investors around the globe. We deliver the full power of the integrated platform to these relationships day in, day out which range, as I mentioned briefly earlier institutions, pensions, sovereigns, foundations, and Endowments as well as the wealth management channels, which I know were mentioned earlier.

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As we collaborate and work closely with the investment teams across segments, we have significantly increased the number of investors that have allocated to our strategy. And actually since we last met, five years ago, the number of investors has increased by 60%. And we expect this positive trend, as I mentioned, to continue and you can see it across segments.

Moving to geographic reach. Again back when we last met, we touched investors in approximately 50 countries around the world with a goal to continue to expand. Today we have relationships in 65 countries, and importantly as you can see from these percentages we have not only grown in geographic breadth, but we have grown in AUM. In fact on an absolute basis, we have grown across the board. And if we look on a relative basis in terms of where we've seen even expedited growth, it includes the Middle East, Asia, Latin America and Europe. Just by way of example, I thought I would share a contrast between Fund VIII, which closed in 2014 versus Funds IX with a couple of years ago.

So in Fund VIII, we were approximately 60% North America in terms of representation from our investor base and 40% rest of world. If we fast forward to Fund IX, it was the exact inverse, where we had, in fact, 60% rest of world. It was a larger fund, so thankfully we saw the increased in allocations across the board, but it shows the relativity.

This slide is particularly important, because as we've grown our breadth of our product, we have been able to increase materially the number of strategies that a single investor commenced to us, showing that consolidation among LPs to the -- to GP managers. So if we look at the Top 25 of our relationship, they have more than doubled the number of strategies that they are in trusting us with. And when we look more broadly at those investors that have given us more than \$75 million of commitments and that represents a group of roughly 200 investors, they too have doubled the exposure that they have across the platform. Many of you have heard us speak about strategic partnerships, and we're proud to be a leader in this area of the business. Given our flexible and integrated approach, it probably should be no surprise that we're able to create a spoke solution for our investors that are interested in investing in size. These are large scale commitments from mandates that they are looking to us to help them solve an issue in their portfolio or to capture an opportunity. And some of these can be specific to an A segment or an asset class, while others are broadly allocated across our platform.

I was looking through our investor base and thought it would be interesting to see, of our Top 50 institutions what percentage their commitments to Apollo represented of their total AUM? And there is approximately a 0.25%. This is interesting because I think it shows how much runway we continue to have. While we're in incredibly strong position with our investors globally, we have a clear path to be able to continue to scale and this is just by way of example, if we were to increase by another 0.25% with these same institutions, it would increase by \$100 billion in terms of AUM.

So while our outreach is far beyond these Top 50, we have certainly a lot of opportunity ahead when we look both at our existing investors as well as new prospects. And it's built off of the strength of our performance, the capabilities and the breadth that we have as an organization and importantly, the strength and depth of the relationship that we have as an organization.

Turning to the product offerings for a moment. There are two areas I wanted to touch on where I believe we continued to scale. The first is our existing strategies and that relates both to our traditional fundraising efforts as well as the permanent capital vehicles. And second of course is the new product innovation that you've heard throughout the day. As it relates to our traditional fundraising efforts. I wanted to highlight a few examples, where we've already created significant scale and no doubt we will continue to add to it. You can see it's broadly diversified across private equity, credit, real assets and of course, this doesn't include ADIP, which we most recently announced and similarly will continue to scale over time.

Our LPs around the globe have not only supported our traditional fund raising vehicles, but they have also been key investors with us as we innovate on the permanent capital side as well. So you've heard roughly, kind of, \$14 billion of equity, if you added ADIP, it would be the \$17 billion that you heard earlier, to our permanent capital FIG-oriented opportunities. And there is no doubt that our investors see us as a leader and our expertise that we bring to bear in financial services and insurance, in particular, and they have entrusted us with a great amount of capital to these initiatives that allow us over time to continue to grow and scale and ultimately as you see here have AUM of \$150



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billion across these platforms to date.

So you've heard about innovation, and it's certainly is -- it's in our fabric, it's in our culture. And when you think about how often the word collaborative has been used in the discussion today and integrated, it's true for our innovation process as well. So we do have formal new product innovations sessions that we have cross function, where we get the relevant talent across the firm and intra-rooms on a regular basis. But importantly, we have a lot of these ideas developed from the informal very organic connectivity that we have throughout the organization.

So when we look back at what we've created in terms of brand new products that we did not have five years ago when we last met, its \$30 billion in building in this area of the marketplace. And what we think about here is how do we connect the investor need to our investment capabilities and the market opportunity. And thankfully, we've been able to repeatedly deliver this to our investors on a global basis.

So looking at our product offerings, this similarly has grown since we last met and helps us in an increasingly complex environment for our LPs to deliver solutions. So we are able to speak about a range of risk return profiles, also liquidity options that meet them where they are in terms of -- what they're looking for in their portfolios, and enable us at the right point to speak about either co-mingled to permanent strategic partnership to fund, to co-invest and direct opportunities. This also includes that mix of opportunities in terms of both existing and as well as new products that we've spoken about So we continue to innovate and I thought, I would just give you a taste of a little bit of what we've been speaking about in the lab across the different segments and credit. You can see that we're building on areas, as I mentioned earlier, that are in origination and mezzanine and certain segments of that market that we believe we can differentiate ourselves. Infrastructure, which you heard a bit about and real assets among others and I thought I would just take a moment to speak about one particular opportunity that we see on the horizon as very synergistic with our expertise and franchise. It was mentioned earlier that we have a great commitment to ESG. It's been seen at the firm level as well as the portfolio company, and historically, we've taken the view that we should focus on impact as part of our portfolio company, underwriting and monitoring.

Increasingly though, we recognize that the impact that we can make from a societal and environmental perspective is significant, and as we make investments, there is an opportunity to have impact as our primary mission from an underwriting perspective and have a more targeted potential offering around that. So when we think about the private equity expertise it dovetails quite nicely with this area of investing as it relates to sustainability, education, potentially health care and other themes. So it's an exciting area for us. One of several that we've been innovating around and more to come.

So I'm excited. I think at the -- given the evolution that we've had to date and the road to come as we kind of embark on the \$600 billion as our objective. And circling back to where we started, I do feel that as an organization, we are extremely well positioned with our investor base and the potential for growth given how broad we can be in terms of that dialog and the strength of our performance and capabilities in order to meet their increasingly complex needs.

Thank you. And with that I will pass it to Josh.

## Operator

Josh Harris, Co-Founder and Senior Managing Director.

## Josh Harris, Co-Founder and Senior Managing Director

Thank you, Stephanie. And it's great to be here. I know I'm standing between everyone in the room and lunch, and we're running behind. So I'll try to be brief. But -- I think you've heard -- I'm very glad that you guys had chance to meet a lot of the team and see the people that do the real work, we get to present the work. But I think that we have incredibly broad team and a powerful franchise. And so, you've heard that all morning, and what I'm going to try to do is talk a little bit about that, but also really turned to why we -- we have a powerful investment opportunity and real

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upside in the stock.

Just starting quickly with the franchise. I think what you've heard today is that Apollo's franchise is really powered by an incredibly differentiated model, a strong culture and -- a highly differentiated private equity effort with the best returns and importantly a very broad credit -- the broadest credit business in the world in terms of off the running credit. And a very low cost part of that instead of liabilities, we have LP liabilities that kind of reach up from 6% to 20% [ph]. We have this insurance -- these insurance strategic partners that allow us to go from 3% to 6%. And so where we're building a unique set of capabilities.

And one of the things we talked about and have illustrated is our culture and our people. And throughout each section, whether it'd be in infrastructure, whether it'd be data and technology people, whether it be communications, we continue to invest very heavily in the business with new people and new capabilities across all the investment businesses as well as in terms of enterprise solutions, which is what we call our infrastructure.

And -- but importantly, what I want to leave you with is that this business is more -- is way beyond the three founders. And at this point, we've evolved the business to the point where -- if all of us were hit by a bus, although we don't travel in the same bus, we have a very broad team behind us. And so as the business grows, it's important that we continue to keep up with the growth of this business and to keep tracking the best of the brands. We're really continuing to decentralize and to bring along very, very good talent.

And another thing that I just wanted to illustrate is the breadth and the scale of our portfolio the size of our portfolio provides us with unique insight into the economy and gives us an information advantage and scaling that's beyond our corporate structure. And so it's hard to really even discuss the advantage here. But whether it'd be attracting data and technology people, whether it'd be synergies across our private equity portfolio, whether it'd be all of the unique information that comes out of it, we're able to leverage that through the integrated platform, which we've talked all morning about to create real competitive advantage. And if you were to add it all up, we have 440,000 employees, and we're the 29th largest company in the S&P.

So we have a unique business model, and in our industry, what that led to since our IPO is the highest growth in AUM, the highest margins and importantly, the highest growth in FRE. And as people have talked about all morning, we continue to think we can replicate that. Really we see a lot of open white space in terms of continued growth. And so getting into -- and so in addition to being really poised to continue to deliver very strong growth and cash flow, we think that the stock itself is very undervalued. And so we think we're able to deliver a value proposition here where we deliver growth, we deliver real cash flow and dividends, which I'll talk about, and yet, when we look at how we're priced in the marketplace relative to other companies with our opportunity we're still 25% to 40% undervalued. So let's get into that.

And before we do, one of the reasons why we're undervalued is that, we continue to -- we're in the early to middle innings of making structural changes that are very investor friendly, and we've heard from the investor community that they like our high dividend yield, but they also want greater visibility into a predictable minimum quarterly dividend. As such, we are excited to announce today a minimum annual dividend of \$1.60 per share or \$0.40 per quarter.

In terms of our current policy, I want to point out that we still plan to payout substantially all of our distributable earnings above this minimum level. And as I've discussed, we expect our cash earnings driven by continued growth in FRE and meaningful performance realizations to lead to dividend payouts well in excess of this minimum. But we've heard a lot from many, many different investors that they want something they can count on year in, year out, performance fees or no performance fees, and this is a level that we're incredibly comfortable with and that we think we'll be able to significantly exceed.

And this is the continuation of all of the things that we're trying to do to make our stock more valuable and more investable to everyone in the room, and it started with C-Corp. We announced the transaction with Athene and now we are giving clear guidance on the minimum dividend. And as we increase our FRE, which is the part of our earnings stream that clearly is predictable and durable, and we really believe that, recession or no recession and Martin talked about it. We're going to continue to increase that minimum dividend with the FRE.

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Now let's go through some of our five-year financial targets. Looking at our expected revenue growth and some continued margin expansion, we continue to be very confident that we will be able to double FRE over the next five years. And this includes -- this particular slide includes investing about \$300 million in our business over the next five years. So the powerful revenue trends in the Alts and our ability to continue to add insurance liabilities to our strategic platforms and manage those assets are going to allow us to double our FRE growth while we build yield platforms.

As David and Scott and Matt mentioned, we have a maturing private equity portfolio of Fund VIII. The biggest engine of this is the average investment is still only 3.5 years old. So it's just coming to its maturation. And so over the next number of years, we are gearing up for our next realization cycle, driven by this. In addition, we expect our sizable credit and real assets platforms to further contribute to performance fee realizations. And so, if you think about \$1.50 to \$2 per share versus \$1.30, we have meaningfully more assets in the ground.

And so I would view that as a very conservative number, but we would expect that over the next five years. And it's been a really unique situation that we've all found ourselves in where we monetized Fund VII, which was prior to fund VIII a very quickly, and Fund VIII took a while to invest. And so it -- when you understand the maturation of the different funds and when you really study it. It makes a lot of sense that now you're going to get a big realization cycle clearly dependent on market conditions.

So this is all going to translate into a robust cash flow for all of us, all of the investors, and so in this particular slide, I'll walk through that. If we double our after-tax FRE per share to \$3.40[ph], and then if we realize this \$1.50 to \$2 per share -- distributable earnings per share will be in excess of \$5 per share normalized in five years. And if you look at obviously today, you'd subtract off \$1.70, so it would be \$3.30 or so. And so five years out, if we maintain our normal dividend payout, we're going to pay out \$4.50 per share. Today, as we start to realize that number if we maintained our normal dividend payout is just under \$3 a share. And so there's a lot of cash flow coming our way, all of us to investors and I count myself among to you as well as being running the Company.

Now let's turn to our valuation framework. So this is our sum of the parts valuation, we put it out and we updated periodically. I was going to say, let me sum of the parts valuation is up, but I was told not to, but I just did anyway. So when you look at this, we think that the fair value of Apollo at a discount to other comparable financial companies, which we'll talk about. When you apply that against FRE and when you add our balance sheet and the net present value of our incentive fees at a heavily discounted returns -- the returns that are discounted well below our historical averages would equate to -- \$60 to \$73 a share -- \$59 to \$73 a share. That's obviously, 25% to 40% discount to where we trade today.

And when you think about it or the way I think about our stock is that, we get -- FRE gets valued at 18 times or 19 times, and that's the value of the whole stock. And so the balance sheet and the performance fees is ignored in that calculation. And so, as we go through, you get all that for free. But clearly, as we approach a realization cycle getting that for free the cash is going to come in. And so the NPV is getting closer. So I think that -- it doesn't really make a lot of sense to me. I'm going to go through each of the components.

And let's start with that FRE, which is obviously the most important component of the valuation and increasingly the most important component of our earnings. And as I think about it in terms of growth and margins we have massively outperformed the S&P 500, yet we still trade at a similar PE multiple. And also, despite outperforming other high-growth, high-margin financial companies on both metrics our PE multiple is 9 multiple points lower. And as we had mentioned that's about how much lower we are than our biggest competitor Blackstone as well. And so as I think about that, that just seems like two significant of a discount. So what I did on this slide, just to indicate that is I didn't even go all the way up to the average of these financial stocks and I didn't get that perform worse than we do financially.

I just want -- the top it takes a little discount and the bottom is a more significant discount and if you use that range the FRE alone equates to stock price of \$43 to \$51 a share and clearly it implies zero or negative value for our balance sheet and our performance fees. But we believe that our balance sheet and I prefer it sees carry significant value. Let's just talk about our balance sheet for a second. We have a very valuable \$5 per share anchored by incredibly high-quality underlying assets. So that's kind of one point and you can see all the assets, certainly Athene is a big part

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of our balance sheet. But also we're incredibly capital efficient. So if you look at our next -- if you look at our net assets about \$2 billion and we're managing \$323 billion with that \$2 billion balance sheet. And so, the return on invested capital that flows through our financials is evident.

And just to talk about the biggest component of our balance sheet and I know you've heard a lot about Athene, but Athene has incredibly strong growth in earnings power and now we own -- obviously the balance sheet owns roughly 30% of that. And as Gary mentioned earlier, under our current accounting method because Athene does not pay a dividend, our share of Athene's earnings is not reflected in our earnings metrics, were we to include Athene's earnings in our earnings metrics we would add \$0.90 per share for Apollo, but the way Athene is now reflected on our balance sheet, it's reflected in -- some of the parts valuation only, which as I've said is not being attributed much value in the market today.

And so, that earnings power that Athene is generating doesn't really show up. And even if our balance sheet is valued it's valued at about 60 [ph]. So we think that -- we don't necessarily agree that's the right way to think about it, but that's what the market is saying. And it seems -- operating performance as Jim came up and mentioned, Athene is doing a great job. It's growing and it's got a very sizable capital base, and we don't think -- we don't think it trades where it should in the marketplace, even despite everything else I just said.

Now let's talk about our performance fees. They also contribute to our earnings, but are largely ignored in our valuation after taking a large discount to our DCF model, so taking returns down in every single category and also discounting and using very high discount rates and we're going to, we put this out publicly, so you can study it, we think the net present value of our performance fees is we're somewhere between \$11 to \$17 per share across our businesses. And so we will be able to look at the granular detail of that.

So to sum up the valuation, to reiterate, on a conservative cases, are sum-of-the-parts valuation implies an intrinsic value of \$59 to \$73 based on today's financial metrics or 25% to 40% discount to our current stock price. As you can see, we are in the early innings of closing that discount. If you look at the lower two boxes, when we, before we did some of our changes the C-Corp conversion, the Athene transaction and this is before the announcement now of the minimum dividend, we were at 30% to 45% discount in March of 2018 to our sum-of-the-parts valuation. We've closed a little bit of that, but we expect we're going to close a lot more of that. And we are continuing to see a lot of investor interest, we're having a lot of meetings, and we think a lot of the things that we're doing to make our stock better, easier around what liquidity has ticked up, we think all that's going to have an impact on, tactically on our stock price.

So let me close with this. Apollo is growing and powerful franchise and a strong financial investment. We're a tenacious organization that is laser-focused on growth, margin expansion and recognizing opportunities where others don't. And for that reason, we think that we are leaning into the strength of our people by elevating those who have grown up here and made a great impact bringing in professionals that have a diverse skills perspectives and areas of expertise.

To close, I'm incredibly proud to have grown up here, spent the last 30 years here. Leon, Marc and I have three decades of our lives invested in this, in terms of delivering returns to LPs and shareholders. It's a mission that we're going to be on -- we're going to be doing for a long time. And hopefully, will all around for a long time. And we want to thank you very much for listening and for your support of our company. So now let's go to lines to have Q&A. Appreciate it.

## Gary Stein, Head of Investor Relations

Thanks, Josh and thanks everyone for participating this morning. Thanks, especially to our speakers. As Josh said, we're going to break for lunch now. Please head downstairs to the second floor, to the tariffs room for those on the web, we will be reconvening for the second Q&A session in about 15-20 minutes. Thanks.

## Operator



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Ladies and gentlemen, if you can please turn your attention to the stage our Q&A will begin thank you.

## **Gary Stein, Head of Investor Relations**

Great. I hope everyone has had a chance to have some lunch. Thanks again for joining us for lunch. For those on the web, thanks for being patient with us as we moved rooms and got settled here. But we are going to do our second Q&A. For those on the web, who can't see, let me just tell you, who's on the stage. Right next to me is Scott Kleinman, Co-President, next to him is Gary Parr, Senior Managing Director, next to him is Jim Zelter, Co-President, next to him is Josh Harris, Co-Founder, Senior Managing Director, and at the other end is Martin Kelly, Co-Chief Operating Officer and CFO.

So again, we will conduct sort of 15-minute or so Q&A here. And I would just look to turn to the audience and see if there are any questions. Yeah. So Bill.

## **William Katz, Analyst**

Okay. Bill Katz from Citi. So first of all, thank you very much for today, very, very helpful. So maybe just talking a little bit about some of the financials, a more for yourself or maybe everyone. Can you maybe expand a little bit more your commentary around the dividend policy? Is it a function of purely payout on FRE and how we should think about maybe growth associated with that over time?

And then just sort of stepping back, obviously the key theme here is that there's a tremendous amount of opportunity for growth. But you also see yourself undervalued. So how are you thinking about capital return, looking at a little bit longer and maybe the mix, the question is ultimately the mix between buyback and a dividend payout over time?

## **Scott Kleinman, Co-President**

Yeah. I'll start. So, Bill, we set the FRE, we set the dividend at a level which is we think comfortably covered by after tax FRE, and what we've done is, look ahead and looked at the dilution from the Athene transaction tax effected and derived a number, and that number is we think comfortably ahead of where that minimum dividend will be set.

So, the intention, the intention when you stand back from it all, is to do pretty much the same as we've been doing, which is we pay out substantially all of that cash, other than what we deem necessary to to run the business or grow the business. And that tends to in practice, translate into all of our FRE and most of our Incentive cash earnings is paid out. And we've debated, we've debated all the capital return alternatives over time. We want to immunize stock dilution from employee programs. We've been doing that and we plan to keep doing that. But we also don't want to shrink the flood. We think -- afford of its current size and larger over time is helpful. So it's a cycle below a certain price and it was really cheap, then we probably lean in and do more. But we're not minded to returning capital through buybacks, rather than to have high payout. And so we plan, we plan a quarterly minimum of \$0.40, that will grow over time as FRE grows, and then we will pay out incentive cash and FRE on top of that as it comes through.

## **Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer**

And Bill, what we've said is that, that's going to average \$1.50 to \$2 a share. So that incentive cash is actually a pretty meaningful number, I mean obviously can't predict when it's going to come, but we're, the portfolio is maturing to the point where it's likely to come as long as the markets continue to hold up and you've seen us start to move to sell a number of companies, which have been showing up.

The only thing I would say is, we've always said that if there were some extraordinary investment opportunity that we reserve the right to retain that excess cash flow from the incentive company to invest in it. I think by setting a minimum

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dividend, what we're saying is that, that part of our dividend is now off the table, that we're going to keep paying it. So I think that that's something we want people to be able to count on and it'll grow comfortably over time.

## **Gary Stein, Head of Investor Relations**

Rob?

## **Robert Lee, Analyst**

Thank you. Oops. Thanks for taking my question and thanks for the Investor Day. I have to ask a question probably related more to Athora, and then anything, obviously you've laid out the insurance opportunity broadly today, talked about the acquisition opportunity and you have a \$35 billion transaction closing soon. But how does the opportunity with Athora differ from what it was with Athene, I mean is there is the same opportunity to add spread in Europe, direct origination as it is here. I mean, just given the different regulatory environment and different insurance regulations, but can you maybe talk about some differences in that opportunity?

## **Stephanie Drescher, Co-Chief Operating Officer, Lead Partner, CreditPicture**

Sure. I was going to say is a the solo point of migration, but would you keep in mind the microphone towards to Gernot, because you all gathered, we as a collective team spent a lot of time on these various transactions and markets. But Gernot's on the ground, so I'll let him start.

## **Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer**

The opportunity is different and I think the opportunity reflects specifically these are idiosyncrasies of the European market, right. And the one thing that is extremely different is actually that the Athora balance sheet is what we call it spring-loaded. So in the type of a financial crisis the way we've set up our entire capital model, we will actually generate capital.

There is a long story why does it, we will actually generate capital, because other people will lose capital and this works was basically I mean things that the volatility stuff, but there is a dynamic in that balance sheet that's very different, that allows us to actually generate capital and then the European balance sheets have a generally a very, very high percentage of sovereigns.

And there is the result of the long liabilities. So there needs to be something to duration match which are actually means in the time of crisis, we've generated capital, we also have endless access to liquidity by repulling the sovereigns. We can actually in the time of a crisis massively lean in without going to the outside world to actually raise capital. So that's quite unique and quite different about the European balance sheets versus the US branches.

Regulatory, I think Solvency II creates. It's actually perfect for somebody asked me earlier why does a MetLife and a prudential not do what you're doing on the origination side, and I said, there is a difference whether you have an asset manager below an insurance company or an insurance company below an asset manager, because that's cultural and I think that's what's the key difference in this as well, because that's where the opportunity actually comes from, because we think about this in markets term and very dynamically and not in the form of long-term average of those insurance companies.

Just to contrast with Athene, my answer to what Rowan said, the two aspects, one is across Europe, you get segmented markets and a lot of companies, the large companies in Europe are now repositioning their portfolios to decide where they want to grow and where they therefore want to release capital and exit. So we by being multi jurisdictional can do that, the primary way they can raise capital and exit is the back book, and so that release in the Solvency II and so we

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didn't touch on it much today, but if you would have see in the side Apollo and all of these different capabilities one of the areas of expertise is looking at the efficient frontier of investing for NAIC and for Solvency II.

They're really quite different. They are different asset classes, different durations, ratings matter a lot in the US, duration matters a lot in Europe. So I touch on this and then we should have expanded order more -- to think of it, but it was, we look in the European landscape this issue -- last point I'll make, many of the companies, particularly mid-sized companies in Europe have historically invested in sovereigns and with their country real estate. Those were the two asset classes they understood. So we bring this whole array of other assets, which are actually quite Solvency to friendly and create this yield advantage.

## Unidentified Participant

But I'm sorry.

## Unidentified Speaker

I was just going to continue. When we talk today about the virtuous circle and in my comments in the beginning about the role of banks, all managers and hedge funds, Europe is still a marketplace that is dominated by the banks in terms of variety -- virtually all corporate lending, there really isn't a large securitization market. So that relationship lending bank dominated market.

We certainly believe in the building as Gary mentioned for us to add value on the Athora balance sheet. We believe that the origination platform strategy that we've developed and really executed. It's very, very applicable for Europe and you will see us be quite active in bringing that incremental return. Now you're starting from a lower point in terms of what you're liabilities, costs in Europe versus your liabilities in the US, but notwithstanding all the points that Rowan and Gary made about Solvency and what you need in your balance sheet that incremental ability for us to add to that secret sauce, very focused on it.

## Unidentified Speaker

And the last, I would add is just that from an economic point of view, Europe is kind of a little more leverage there, it's a little more restrictive in terms of the, what assets you're allowed to manage, but at the end of the day, the FRE per dollar of AUM is actually quite similar for Apollo.

## Craig Siegenthaler, Analyst

Craig Siegenthaler, Credit Suisse. Thank you, guys. So my question is, you actually have a very large long-only fixed income business based in Los Angeles. It's purely captive, I believe, is there any appetite to eventually expand that to third parties, which could really add a lot of AUM over time?

## Leon Black, Founder, Chairman and Chief Executive Officer

Sure. You right. When we think about our business in terms of what we do for our related balance sheets, it really, there is a waterfall of logic that we bring. First of all, we want to make sure that we are feeding related balance sheets first and foremost and if there is an asset class, believe there is extra capacity or extra supply for us to take outside of the outside world and it provides a benefit to our business. We will certainly do so.

There are certain asset classes, portions of the commercial real estate debt world, we'll be focused all of our attention on our internal balance sheet. So to your question, yes, over the next several years, it's not a -- our first strategic priority

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is to make sure we're feeding the needs of Athene, Athora and our affiliated balance sheets, and obviously our LP relationships. But there are certain parts of corporate origination, structured credit, aviation finance where the opportunity set is greater than their appetite and in those areas, we will selectively expand two third parties, but our focus is really on new generation at those related balance sheet first, and in doing so.

### **Colin Ducharme, Analyst**

Hi, I'm Colin Ducharme with Sterling Capital. The long-only community surely appreciates the different structuring you've taken for example with minimum dividends. Another way to set a floor under the stock is the balance sheet investment component. We've seen different models in this space. You have large peers that take a pure balance sheet light approach, you have other peers that prefer to compound that book value component over time. Post the Athene transaction, that's kind of a transformative deal for you all as you roll forward your five and 10-year plan, I'm just curious which model do you anticipate Apollo fitting within over time? Thanks.

### **James Zelter, Co-President, Chief Investment Officer, Credit**

Yes, I'll start. Yes. So we thought a lot about that. We continue to believe that having a very efficient balance sheet where, as I said during my presentation, our net balance sheet is \$2 billion. But we're managing \$330 billion of assets. We think that generates much higher return on invested capital. And therefore, that is the direction that we're continuing to head into and support. Clearly, the advantages to having and -- we affiliate strategically with big balance sheets. So I think that we're going to continue to head in that direction and we see this as a logical step for us clearly. We did add to our balance sheet, but it continues to be highly efficient.

### **Scott Kleinman, Co-President**

I will just briefly add, we describe some years ago strategic capital. If we think about capital, we want to know if it is getting a very high return. So anytime we do the analysis about committing capital is something we really look for that leverageability and very high returns. So our net book value, even after the Athene seen transaction is about \$5 a share, including the capital we have in GP interest plus Athene stakes. So when you net and say \$5 against our current market capitalization, it's still relatively small, but the return we get on that capital base is very high. And that's the way we think about it.

### **Gary Stein, Head of Investor Relations**

If you just wait for the mic. Name and affiliation.

### **Unidentified Participant**

(inaudible) Asset Management. So could you speak about the fees, because some of your competitors start making those concessions for a big clients, and I think you mentioned you still hold them quite well. So what's the trade-off there. Could you, -- \$400 billion or \$500 billion, if you've made some discounts?

### **Josh Harris, Co-Founder and Senior Managing Director**

I'll start in aggregate, and then let Jim and Scott talk about the specific businesses, but in aggregate, because of the performance of alternatives relative to traditional fixed income and equity, there is more demand for alternatives and supply. And so, while we are making fee concessions for size in the context of our overall business, the fee rates have



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been actually pretty robust and haven't really moved very much. The mix of the business obviously moves around within the context of those fees and clearly larger clients are on some way accommodated but -- so that's the broad answer to how. But I don't think we're leaving much because I don't know that we could balloon our business. The further point is just that, right now people are throwing more capital at us than we can actually invest. So it used to be as an alternatives firm, you got -- the trick was getting the capital and then you'd find the investment opportunities now. It's about not taking the capital. We continue to turn away capital pretty much in most strategies because we can feed both our strategic platforms and our LPs on the opposite side and then on the private equity side we turned away capital on our big fund.

### **James Zelter, Co-President, Chief Investment Officer, Credit**

I think, Josh captured it. I think I think Jim Belardi and Matt talked about our team structure in our partnership there. We feel very comfortable that is market. But to George's point, we purposely have not taken daily liquidity product. We could have (inaudible) our assets through that area. So I think, Josh it right, we've really balanced our capacity to create returns with our discipline about growing our business. And I think we're all consistent and comfortable with our strategy.

### **Scott Kleinman, Co-President**

I would just add on the opportunistic side. Meanwhile investors, of course, always rather pay less fees than more fees. At the end of the day, most sophisticated investors understand the need to look at net returns. And if you're delivering the right net returns, it's not usually a terribly long fee discussion so.

### **Nicholas Tatsis, Analyst**

Nicholas Tatsis, Invesco. Could you guys just talk a little bit about the nature of your conversations with big US mutual funds, post the C-Corp conversion, are there are a lot of tentative investors that knew the story well but couldn't invest as a partnership, are there folks that are brand new and need a lot of handholding. What inning do you think we're in terms of educating along about Apollo and the alternative asset managers in general?

### **James Zelter, Co-President, Chief Investment Officer, Credit**

Yeah, as I mentioned in my comments, we've spent a lot of time on the road. We've had great meetings. I think the level of dialog for the first time meeting has been significantly higher than I expected going in. It was by no means we're from Apollo, this is what we do. It was, -- you jump straight to Q&A with sophisticated set of questions, really getting at the same issues that people who have been following the stock for quite some time.

And I think we've heard for some time that there were investors that couldn't own the stock or wouldn't own the stock. And it just that the level of interest in dialog pivoted almost overnight, actually. We've had access to investors who good really good quality big known investors who for years we just couldn't see because they couldn't invest and so there is no point them taking a meeting with us and so we've had great meetings.

And so, and I know -- you can use, that kind of so much territory and in a couple of months, but I think there is a ways to go on that front as we continue to do the rounds.

### **Leon Black, Founder, Chairman and Chief Executive Officer**

And what we said on our conference call was that, when we look back prior to the C-Corp conversion and we look at our long-only and passive ownership it was 40%-ish now it's low to mid '50s. And then when we look at some of the

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comparable companies that have been in this position for longer at 70 plus. And so we're sort of middle innings with that one step and so we would expect to see more. And we're also going to be included more indexes over time. The MSCI and likely Chris [ph] we continue to believe that we will move further into the REIT investor hands.

### **Gerald O'Hara, Analyst**

Hi, Gerald O'Hara from Jefferies. Perhaps one on real estate. If I think back maybe five years ago to where we were \$10 billion, \$11 billion if I'm not mistaken, there was maybe a little frustration with that segment or the growth of that segment in that platform. Clearly, things have changed. There is a change in tone, confidence is much stronger talking about doubling it, could you perhaps talk about some of the factors there that have both changed since that time and what gives you the confidence to see that double going forward in the next five years.

### **Leon Black, Founder, Chairman and Chief Executive Officer**

Sure, sure. So, I think for starters, it's just been a renewed focus and attention from senior management.

### **James Zelter, Co-President, Chief Investment Officer, Credit**

It's like anything like all the other businesses we've grown, it's when you put your mindset things you can find ways to take advantage of your relative strength. And so for us, we've obviously over that timeframe developed a very strong commercial real estate lending business that you heard about today. We've gotten organized around some of the equity opportunistic real estate businesses and now have a broad geographic footprint to be able to really pursue those markets. And then possibly most importantly, there is also the sort of the white space in between the low risk, low return, the high-risk, high return that core plus segment that is very suitable for a lot of the balance sheets you heard about today. And I think you're going to see pretty meaningful growth in those types of strategies as well. So I think that sums that up.

### **Unidentified Speaker**

Yeah. And I would just add and that's a great example. When I was asked earlier about the growth opportunities, I mean, commercial real estate debt is one term. But you know what the role that we provide with the theme when Jim a few years ago really expressed a desire to take that balance sheet from probably 12% commercial real estate debt exposure to '16-'17 first mortgage is fixed and floating rate product, transitional first mortgages, stretch first mortgages.

So the skill set in the solutions that we have is part of our toolbox now are continuing to expand that builds upon the equity business, what, Scott, just mentioned the Core Plus business which were correctly launching in Europe right now. We think that's got a lot of benefit to our remaining balance sheet. But also it's going to be a product that has institutional scale. So -- just a lot of collaboration to have us have that strong view in the future.

### **James Zelter, Co-President, Chief Investment Officer, Credit**

All right. Time for one more question if there's any last question. Otherwise, (inaudible). I want to thank all of you for participating. I want to thank everyone on the web for participating. I want to thank all our speakers from Apollo. I want to thank everyone at Apollo who put in a lot of hard work to get ready for today and we'll look forward to keeping the dialog going with all of you. Thanks.

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