Moderator: Good afternoon. Please welcome Co-Founder and Chief Executive Officer, Apollo Global Management, Marc Rowan and President and Chief Executive Officer, Royal Bank of Canada, Dave McKay.

Dave: Well, good afternoon everybody; and thanks for joining us over lunch. I'm happily thrilled to be back here and joined by Marc Rowan. I think almost all of you know who Marc is, obviously, Co-Founder and now CEO I guess that last two years of Apollo. It's been an incredible journey Marc.

And I've spent a lot of time watching on YouTube getting ready for this. So I've heard some of these stories we're going to tell today. But really, thought the investors in our conference would really benefit from hearing what you built and how you built it, but then where you're taking it going forward. So welcome and thanks for joining us today.

Marc: Thanks for having me and I'm always happy to compete with lunch.

Dave: Well, hopefully lunch is good. We haven't eaten, but we're ready to roll here. We always start with context, I think. And the context of where we are in the world; how you look at the world; how you look at markets; how you look at global macro factors; rates inflation and how that plays into your strategy. So I guess we're all trying to figure it out. So let's just start with the big picture and have you figured it out? Where we've gone and we'd love to hear.

Marc: Well, look, I think this room has probably heard at least every day, six or seven different opinions. I'll stick to the one I started with a year ago. Which is I said to our Chief Economist, I think we're going to have a no-recession recession. And he's now coined that, but made it sound much better. We're going to have no landing.

Think about the world. For 2008 we had a global financial crisis. We printed $8 trillion. Exactly what was supposed to happen happened. Everything went up into the right. We removed some of that. And exactly what was supposed to happen happened. Everything went down. And so when I say we're going to have a no-recession, anyone who wants a job has a job. Wages are generally good. Yes, there are inflationary pressures, but typically, recessions are fall-off in demand, which we don't see.

On the other hand, everyone in this room who owns assets, guess what? Assets are worth less. To the extent that that impact spending and things are interest sensitive, we're going to have some fallback in demand. But I think it's going to be very hard in the short term to create enough demand destruction to produce a recession.

Dave: So you're calling for persistently higher rates and just to try to bring us under control, there's somewhat stimulus left in the economy.

Marc: Sideways for '23, which means rates probably go up, but we don't see the typical cycle that we've been through, because the typical, the cost was not the typical cost.

Dave: Do you see central banks moving out of the target range of inflation, trying to ease some of it, the carrying costs of all this debt in our economy, consumer debt, government debt?

Marc: Ask me when we get six months before the election. I think that that will be the pivotal stance.

Dave: When the pressure really comes together.

Marc: Right. I think that is where the pressure will come together; and we have elections are not just in the US. They roll through the world. And we're going to see change and the backdrop against political circumstances, I think.

Dave: We're certainly expecting that and the consumer side is persistently high inflation will lead to much higher mortgage refinance rates, greater pain on the consumer if rates don't come down; and therefore, as those election cycles become closer and votes are at stake, absolutely that pressure will come.

Marc: Look the story for us is not so much the macro story, it's the step back to think about what else is happening that we're not paying attention to. I like to say that, take our business. So our business as a microcosm for our whole industry, we were $40 billion of AUM in 2008; $30 billion in private equity and $10 billion of everything else.

We ended the year at $550 billion. And I'd like to say that that was a result of good management. But that's not really what happened. It's a simple story of tailwinds. And the tailwinds are in part come out of I chose 2008 for a reason. We had a global financial crisis and the rules under which our financial system operated, and our markets operated, changed. Fundamentally. We just didn't know this because we printed $8 trillion and everything went up into the right.

And last year was a chance for us to begin to understand the impact of those rule changes and the impact on markets; on investors; on the role of banks; on the role of intermediaries; on the role of liquidity. It is all different. And if we don't accept its difference and this is my message to investors with Apollo like if you're going to execute the same playbook that you've executed for the past two decades, you're going to lose.

Dave: Right. And you can maybe peel that onion for us. The role of capital that the banks played in the economy, particularly post-Dodd-Frank, to your point, the secular disruption of private debt, can you go through the macro before we get into kind of Athene and your strategy to cap-life on that. But it's an important fundamental backdrop.

Marc: I kind of see this on four or five different things that I think are worth noting. The first is we start by accepting, like a recovering alcoholic, accepting where we are. Who was a good investor in the past decade? I don't know. Many people in the room, many people, many of our clients think they were good investors. How much of it was market beta?

And I think when we're dealing with 8 trillion of printing, the single best thing for investors to have done for the last decade, up until last year, was to buy the S&P 500 owned 30 year and fire everyone and play golf. Or whatever their passion is. And I think we have to accept that, that the last decade is the unusual part of the world, not the norm going forward.

The second is what happened to capital markets. The way we look at the market, at least, there is no alpha left in publicly traded fixed income or broadly syndicated markets. And I don't think there has been for more than a decade. The margin or buyer of everything is an ETF and open in mutual funds or derivatives trade or hold. And therefore, if you want alpha though, you can't be in daily liquid markets.

In the equity market, 80% of the volume is S&P 500. Five growth stocks are now 30% of the S&P. We're all levered to five growth stocks and the Fed. And so we saw in 2022 indexation correlation. So we saw in '22 the breakdown of a 60/40 portfolio for retail. We saw the breakdown of an institutional allocation where everything was correlated. Do we think that's the norm going forward? Or do we think 2022 was unusual? I think if you accept that the market is indexed and correlated and liquidity driven, I think that's more of a norm going forward than otherwise.

So I start by the last decade was abnormal. Who knows who was a good investor? Things are investing sort of correlated. You can happily invest differently. And then I move on the role of banks. The proximate, the signature piece of legislation that came out of Dodd-Frank was Dodd-Frank, which was fundamentally aimed at reducing the role of large money center banks in the economy. And guess what? It worked.

Banking today is, in the US, less than 20% of debt capital to businesses and consumers. In Europe it's still in the 60s, Asia it's probably in the 80s.

Dave: Most of them are not aware of how well it's dropped, right?

Marc: Very different. Who are the new banks today? And the new banks are all of you. Everything that was once on a bank balance sheet is now an investment product. And in some ways, Dodd-Frank worked. So what's the role of private credit and what's the role of investors? How does the market setup work?

Dave: And regulators keep squeezing that balloon and it's not like it's done.

Marc: Regulators keep squeezing that balloon. And the last kind of observation I'd make is one on liquidity. The reason people are in the public securities versus private securities is liquidity. Well, if you look at objectively, one of the other things that came out of regulatory reform in 2008 was to squeeze market-marking liquidity. Market-making capital is a fraction of what it was in 2008. Markets are three times their size.

So is anything really liquid on the way down, or is it only liquid on the way up? We read almost irresponsibly about the UK institutional behavior and LDI. Was it really irresponsible? Or was it a mistaken belief that markets were liquid? UK institutions tried to sell AAA and AA obligations at near their price; and they found out there was no market.

I put these pieces together and all of them, and I say why do public? Private is where you'll escape indexation and correlation. You're not giving up that much liquidity because the liquidity is a bit illusory. The biggest growth area, I believe, to be in credit, because of the diminished role of banks across the state of the world. And things are now indexed and correlated in published markets.

If you believe those things, that's how we kind of come to where we've come from a strategy point of view.

Dave: And I've heard you as we've talked a number of times, I've heard you say the liquidity gap between public and private markets is collapsing. So you're playing on a number of trends there as well.

Marc: Completely. I mean we…

Dave: ….at the high end, when liquidity is always when markets go up there's a lots of liquidity and markets go down, there's no liquidity. I don't know if you're going to say that, but…

Marc: It's always been the case and it's now more so, but we had this impression that public was safe and private was risky. But 2022 was actually a good reminder that public can be risky too. And private can be risky or it can be safe. And so I look at our business; I look at our industry; and we're the alternatives industry.

What does that even mean? What's an alternative? Is alternative private equity and hedge fund? I think of alternatives as nothing other than an alternative to publicly traded stocks and bonds. And I think alternatives go from AA to levered equity.

Dave: That's a great macro perspective, that led you owned Athene for 35% for I think it was over a decade. You did $11 billion merger recently to bring that 100% ownership. Can you talk through the strategy and the retirement services businesses and how those macro perspectives kind of play into that strategy?

Marc: Sure. I think maybe the beginning and the end is the easiest way to do that. In 2008, the best thing to be was a bank, a new bank actually. Because you could borrow at zero and lend at wide credit spreads. The problem with being a new bank was being a bank.

And so in 2008/2009 we backed a management team with $16 million to do a trade that essentially took this banking paradigm and adapted it to the insurance industry. Rather than deposits, we funded ourselves with annuities; and rather than loans to consumers, we funded ourselves with investment grade securities. And low and behold, we earned spread.

That trade is now grown into the largest retirement services company in the world. The US business and its European counterpart ended the year at $330 billion. And we still offer no insurance. We don't insure your lives; we don't insure your health; we don't insure your property. The only thing we insure is your retirement.

Dave: Your annuity.

Marc: And we essentially make money similar to how a bank makes money. We earn more on our assets than we pay on our liabilities. But to get the bid, you have to be very highly rated. So we are A-plus rated across our relevant agencies. And if you look at our balance sheet, we are 95% fixed income and 5% equity. And of that 95% fixed income, it's almost all investment grade.

To be successful, you need capital, which is just money, but good. You need a real efficient cost structure. Because we're in one business, we have lots of scale. And the most important thing you need is you need the ability to originate really high-quality investment grade yield with spread.

And so we built the business we built out of necessity to feed Athene. Essentially we started looking for and manufacturing and originating investment grade assets at a point in time that banks were looking to reduce their balance sheet dependence and we have built now a machine that originates north of $100 billion a year of investment grade assets, primarily every year.

For the first decade, Athene was growing so fast that we kept it all for ourselves. But the reality is that Athene is a diversified company. They want 25% of everything and 100% of nothing. And so we've built a bit of a different model. We originate assets Athene guess what it wants, clients next, then if it's left over, we syndicate. And clients actually like that we have skin in the game. Or as our Japanese investors say, same boat. We're in the same credit at the same time in the same way with our clients.

And so now when you step back and look at the world, well, to grow, what do we need to do? We need to manufacture more safe yield. We serve a market that is growing every day, that needs retirement income. We look at the statistics on funds available for retirements around the world and they're terrible. In the US, those needs are primarily met through insurance, 401Ks and the like. In Europe, very few alternatives; and the capacity to save for retirement in Europe through insurance is halved, as a result of regulatory shift.

And we are now 1:1 originator of annuities, ahead of all the brand-name companies you would think. And we grow organically about $50 billion a year. So it's a nice play on credit.

Dave: What's the biggest challenge to continue that growth? I've hear you articulate the market's going to take us to a trillion dollars under investment from just under 600 now. As you think about executing against that 50-plus billion a year and hitting that trillion dollars, what are some of the challenges to executing?

Marc: I think it's to two. The #1 challenge is always people, people and culture. But it also is strategy and how we perceive the business. The market actually tells us where we should be. So the makeup of our business today, of the $550 billion of AUM, $400 billion is credit, mostly investment grade credit. $75 billion round numbers is what we call hybrid equity. Think of lower risk, lower-reward equity. And another $75 billion is what people think we do, which is private equity.

And now I look at each of those businesses and I think you do each of those businesses as well they can be done. I'm sure there's always room for improvement; but the private equity business is a 35-year old business. We're at scale. The average investment we make is $750 million. I was joking with you before. How many people do I want making $750 million levered equity investments? Not that many.

Dave: Not out of grad school, that's for sure.

Marc: And so I ask myself whether that's a business that benefits from scale, or if that's a business that should be run for rate of return to maximize investment outcome. And so it tells me that that business will be larger if we do a good job, be smaller if we do a poor job. But in and of itself, it's not a growth business.

Then I flip to the other end of the spectrum and I think about investment grade private credit. And at $400 billion, like it sounds like mighty and reflects our muscles, but it's not relevant. I'm sure like in your boardroom and other bank boardrooms, you're not waking up every day wondering what the mighty Apollo is doing.

Dave: Yeah, we do actually talk about it.

Mac: But I think like $400 billion is a blip in the system, these markets are so vast. And more importantly, they're not prone to the same sort of mistakes that $750 million concentrated equity positions are prone to. Because the risk we think we're taking there is liquidity risk. We're trying not to take credit risk. We're trying not to take valuation risk. But can we afford and can our clients afford to be less liquid if we can get paid for it? Absolutely.

The nice thing about our balance sheet and our clients' balance sheet and pension fund balance sheets, and sovereign wealth fund balance sheets, they don't have daily needs for liquidity. So I look at the two bookends and this is probably out there, I think our credit business will be twice the size in the next five years. I think that's just the direction of travel. And even at twice the size, I don't know that it's relevant. I mean Blackrock, $9 trillion or $10 trillion today.

And on the other hand, I think the equity businesses at $150 billion, I think they'll be bigger. I think they'll be $250 billion. But they're not going to grow in the same way, because the market is telling us something other than what we might want to hear. Scale those businesses that can be scaled; don't scale those businesses that should be run for rate of return.

But the bigger part of this is actually culture. I mean we are the beneficiary of being larger enough to do anything and small enough that we feel like a partnership. So I've just said we're going to double the business. How do we make sure every day that we don't lose track of that? And it's really hard. And it is the primary challenge we have.

And so when I took over as CEO, CEO gets to choose their lane. You know that.

Dave: …few years now?

Marc: I picked four lanes. I do strategy. I do culture, which includes comp. I do communication. And I deal with crap. Those four things are 100% of my day.

Dave: In that order?

Dave: If it's in that order you've done pretty well.

Marc: You know it's not in that order. Unfortunately the fourth one is every day.

Marc: It's a pretty simple formula. We offer our clients one service, judgment. It's the only thing we offer. And we think you get judgment by being at Apollo, seeing what we do and don't do over a really long period of time. So when you join, and we like you and you like us, I want you to spend your whole career there. If I make this the best place to be a partner in financial services, you'll spend your whole career with me.

And if I do that, principals who are 10 years into their career will look forward and see something that is worth being there. And then associates will see two great mentors ahead of them. And the business works. And so it's simple in theory. It's really hard in practice because there's no once answer to this.

Dave: And as CEOs know, you never really prepare yourself for the job and the world changes once you get the seat. Two years in, or that first year to the second year, did your perspective on Apollo change, changing seat from the Co-founder for 30 years. You built the business from the ground up.

Marc: I don't know whether the perspective changed. So I've had every job at Apollo. I joke in the initial firm, it was a private equity firm. Four days a week I was a seasoned private equity investor and the other, the fifth day I went up to our Purchase location and I made sure the wires and financial cut out. I had a back off job too.

Dave: You were the firm.

Marc: Pretty straightforward. I'd say the biggest learning is how I spend my time. I used to think doing something and I was pretty good at doing something was what I was supposed to do. And now I realize that it's not worth my time. The only thing worth my time is changing the way 2,600 people think, because if I can change the way they think, I can get them to paint my fence. Use a literary analogy. And so I choose projects, strategic and nonstrategic, large and small, important and symbolic, with the sole goal of changing the way people think.

Dave: But you go from what should have myself. And it maybe took me longer. You go from chief problem solver and chief creator, chief leverage officer, you can't solve every problem and you don't create any leverage in the CEO's role. To your point, how do you influence 2,600 people through leverage? How do you leverage your time into impact is what you've got to figure out as a CEO. But no training manual for it.

Marc: None.

Dave: You've just got to figure it out. And those who do stay and those who don't.

Marc: Look you and other CEOs in the industry have been very generous with time and advice and there is no manual, unfortunately.

Dave: If you had to make one call or advice, is there anyone that you've relied on early on? You want to talk about, or who would you make a call to today?

Marc: I will say the best advice I've gotten. Best in. We had a long strategic partnership with state of Texas and the gentleman who ran the Texas Teacher's Pension, a gentleman, Britt Harris. So I came down when I first took the job and a lot to say, a lot of change at Apollo, strategy and this and that. And Britt was kind of spacing out as I was talking to him and he was just ignoring me.

And he's like, Marc, let me give you some advice. Don't be defensive, be curious. And ironically, it actually is translated into practical advice the single best piece of advice I've gotten. Because what it's done is it's forced me in a meeting to actually just shut up for 30 seconds, or even 10 seconds. Because if I can withhold giving my opinion, I'll encourage conversation. I'll actually learn something. I may still think what I think after you've gotten done; but every once in a while it's just so important.

Like we're so busy, we're so steeped in the nuances of our businesses. We're so wedded to a strategy and to a set of beliefs, that really being curious to why do you think that? Why do you disagree? Why do you think that's going to happen, has been the best advice I've gotten and it's useful not just in a business context. It's useful in the personal context and otherwise. So I do give Britt a lot of credit.

Dave: That is really good advice. I suffer from my team will tell you that over and over from the same things. One, it's empowering to the team to that pause at the same time. And it's hard to do though, because not only you have ideas in your head and you've seen the model before. And I've seen this movie play, let's just get to the end. You're time pressured. If you've got to do that a hundred times in a week, therefore, I don't have a lot of time to listen, I've got to move. So you've got to take away that time pressure, the time box.

So it's really, really good advice if you can pause and then power the team to tell you. It will change your thinking. And then implementation goes differently as well.

Marc: Yes. I'm polling and I'm looking at my team smiling. They know I'm working on it.

Dave: A lifelong endeavor.

Dave: Maybe I'll do a pivot. You made a recent acquisition of Credit Suisse securitized business. Maybe talk about the rationale, strategic intent and what you want to do with that business.

Marc: Well first is, for those who don't know the business, this is a piece of Credit Suisse that is their securitized products group. They are essentially a lender to other lenders. Think of it as an investment grade business. The stats see in the background, they put out between $350 and $400 billion over the last decade; and they've had $14 million of losses. It is not a risk business, put it this way it is not the supposed to be a risk business. But it is an operationally-intense business, because it's daily fundings with 300 clients.

And what they do and what they lend is investment grade. How many people in the room are investors in securitized products, CLOs, ABS? Zero. Like no one's ever heard of it. We'll start so securitized products, huge portion of the market. Mostly investment grade. And you look and look at LTVs and spreads for investment grade products, really attractive. But if you go up the food chain and you go to the warehouse, lower LTV, higher spread. Like liquidity.

That's the business that we want to be in. It's another form of origination. And so this is a $40 to $70 billion business that does $15 or $20 billion of originations annually, that is investment grade alpha, private, but spread over publicly and comparably traded investment grade.

And for us, we look at origination as the key to our success. So in a year like this it's hard not to look at fundraising. But if you think about the world for the last 10 years, and I think about the world in a more normal state of events, capital is not in short supply. Capital on Tuesday may be in short supply; but capital is freely available. And there's a ton of it.

What's in short supply are good ideas that offer excess return per unit of risk. Yet, our whole industry speaks about AUM as if AUM was the goal. What actually is the goal is to increase our capacity to originate. Because if I'm right then what's in short supply are investments, well, first it goes on our balance sheet to our clients. But if there's excess, we'll syndicate it. Blackrock, Doubline, GSAM, whatever. Makes absolutely no difference. We're making friends every place we can.

And so having a steady supply of origination, starting the year knowing I'm going to originate $50 billion from platforms I own, I think it's just a powerful differentiator for our business. And almost all of them investment grade so aircraft lending; mid-market company lending; supply chain finance; equipment finance; fleet finance; and now securitized product warehouse and finance 16 different platforms at Apollo. And a big part of our differentiated story to generate IG with yield. Safe yield as I call it.

Dave: I'm just going to go back to one of your earlier points, because it's a theme that I wanted to test with you. You referenced the point that you've become and markets have become a much better intermediary of capital. The banks used to play that role 50 years ago, global banks and global intermediaries. We've displaced in America take 20% of that role and 50% in other markets. So you're a much more efficient allocator of capital.

As you watch the global money in that you just talked about, there's no shortage of money in from around the world; but it seems to be, on the money out, it seems to concentrate in a few markets for yield. And therefore, it's not inflationary. There are all this global money and now it's global money out. It's a more narrow focus on where that money goes to work. Your point, too much money pacing too many, too few opportunities and rapid inflation.

Marc: This was the story at the past decade up to 2022. That then empowered them to the growth trade because everyone felt that they had the Fed put. And it's worked out well until it didn't turn out well. But and I think we're in a fortunate place. I think the US is half of the capital markets in the world. It's one of the unique competitive advantages that our companies, that our citizens, that our government has. But I think the notion of displacement is actually worth just bringing the conversation up. It's an interesting thing.

So we've hired a lot of people out of the banking industry over the past four years; and we've built businesses that sound very bank-like lending, investment grade, warehousing. In fact, the warehouse business was owned by a bank, Credit Suisse. Are we competitors in the banking system? I actually don't know. If I listen to a number of the presentations today, do banks want to grow out assets or do banks want to grow fee share with clients?

I think for the most part, banks are looking for more revenue per client than the asset themselves. And so as I sit with banks and bank CEOs, I actually make the case, we don't want what you want. We don't want the client. Because we can't sell the client anything. We can't sell the client M&A; advice; equity; payments; derivatives; hedging; or any other service. And so in many instances what we've ended up doing is we've ended up partnering with the banking system. Because the only thing we want is the asset. And we only want 25% of the asset. Now, we do topple over the sale of the other 75%, but that's a small part of the business.

But I think for some banks, private credit will be competitive because they will want to add to their assets. For other banks, private credit will be a release valve that they don't have to add to their balance sheet and they will keep the client. And I think it's going to be more of the latter than the former.

Dave: The other play to your point there, the banks are in the maturity transformation business; and that's the role you played for a hundred years. Yet we don't have the same duration capability in that maturity transformation. Therefore, you have better duration play, to your point. With that comes liquidity

Marc: We can't play in that space

Dave: Well, limited in the intermediation we can do on the balance sheet; and therefore, have to focus on the cross-sell, to your point, they're less fee-based services.

Marc: I was saying this before. We have on our US capital roughly an 8-year duration. We have to run a matched book. So we have on balance, 8-year assets. For us, getting paid to take liquidity risk is the best way for us to get paid. Getting paid for credit risk is not advisable. Getting paid for equity risk is good, but only equity funds not on a balance sheet. And so we are risk averse. We want to get paid for liquidity and structure.

Now, we have given up the profitability that a bank has by not having the carry of borrowing short and lending long. But we've done that in trade for a stable funding base through annuities and through retirement service. But if you look at what the government was trying to do in 2008, they were trying to have less of the economy dependent on maturity transformation. And for once maybe not for once they succeeded in it.

Because for the most part now, credit is in the hands that is liquidity matched, pension funds, commonwealth funds, endowments, retirement system balance sheets. Now there are places where they are not liquidity matched and that would be open-ended mutual funds and ETFs in times of stress. So there are still stresses in our system; and when I think about kind of risks going forward, the risk to financial firms, I always say are two. The financial funds get in trouble for two reasons. Heart attack or cancer. Heart attack is liquidity risk and it's always borrowed short and lend long. And there are places in the economy today where people are borrowed short and lent long, even if it's not in debt form, where there is this mismatch between the underlying liquidity of an asset. And then cancer is just the making of bad loans or the taking of risk. You have this trying to avoid both, by the way healthy living.

Dave: Just moving to your philosophy on success and how you're running the firm. And you have this fantastic quote when asked about staying focused, no new toys. Maybe you want to talk to and I love it simple, very memorable. What message do you have around that?

Marc: Look, we as an industry and us as a firm, we are $550 billion built $5 billion at a time. In 2008, no business had scale. In 2023, every business has scale. The upside from executing the plan in front of us and doing nothing else is so high that just executing the plan, not having any new toys, the payoff is just beyond anything we could possibly imagine. And it is very hard for an organization of type A personalities, deal-making, to just say no new toys. So we're saying it to each other to keep getting us back down along the way.

But we do realize I don't think we took the costs into account of growth. And so I'll come back to a theme of what we're trying to do. We were growing so fast as an industry and us as a firm, that every time we grew, we added 100 people, and we added a 100 people, and we added a 100 people. And we realized that at some level, that's just a raid on culture. How big do we need to be to double the size of the business? I have no idea yet. I don't want us to be twice as many people, because that will be a bad day for what we're trying to achieve. And so why try to articulate what the goal is?

It's funny to not clearly have everyone in the organization not know what the goal is. The goal is not to be the biggest. The goal is not to be the fastest growing. The goal is to deliver the business plan that we've promised investors, plus a little; and to like who we are at the end of five years. Because that to me is we've succeeded. We've kept the culture, which is a stable base, which is a better business, which is a better foundation. I think in our industry in particular, the blind pursuit of growth has investment and cultural consequences that are at the moment overlooked.

Dave: Chief Cultural Officer that you talked about trying to be the best partnership and groom the best talent. I know you're a proud graduate of Wharton undergraduate and graduate school. You Chair the advisory board at Wharton. We know there's a lot of young people in the audience as well. Can you talk about how you think about talent, what advice would you give to young people come into the system? Do you need an MBA to succeed? Do you need a Wharton MBA to succeed?

Marc: No.

Dave: How do you think about talent and bringing talent in to keep this journey going?

Marc: I'll do it with maybe a quick story first. I teach every year Leadership in the Business World in Texas, University of Texas in Austin. And so I set the stage. This is a group of students who are committed to going into business in a leadership role. They are second year MBAs or seniors who are graduating. And so rather than to start the class, the professor forces two students in each session to sing a song acapella.

When I was there they were singing She Will be Loved. It will never be the same for me after that. And the reason the professor does this they said, after you've sung acapella, you're not going to be nervous to speak in public ever again. And that is 100% true. If you and I had to do that…

Dave: Spare everybody.

Marc: I got a little lazy and, I didn't want to really teach this class, so I decided to put them to work. I sent them our culture videos, our strategy videos and a bunch of information around the firm; and I said, critique our strategy, critique this, critique that. What do you think? Last question, would you come to work for a firm, for Apollo or a firm like Apollo?

So of this group of really hungry business executives, what percentage of these young people want to come to work at Apollo or a firm like Apollo? What do you think?

Female: Probably around 60%.

Marc: I'd have thought 50/60/70 percent.

Marc: Less than 30. The #1 reason people didn't want to come to work at Apollo, work/lifestyle balance. Perceived balance. Now I go down and I teach this class and I basically go through our business; I go through our philosophy. But the most important thing I say to them, there's really like if you want 5 years experience in 2.5, you're going to have to actually work 5 years in 2.5.

But the one thing I will tell you, the partners will be there with you and the principals will be there with you. You have amazing mentorship and everything you do will be valuable and meaningful. Then I plied with them copious amounts of alcohol and a steak, and then sent them on their way. And then I resurveyed them and now 70% of them want to come to work.

Now, you can say it's the alcohol and the steak and that's possibly 10% of it. But there is a perception of value for work and what they're getting out of it. And I think the bargain we're trying to make is, we're not going to tell you it's easy. We actually go the other way and we tell you it's going to be really hard. We want you to self-select. If you don't love what you do, it's hard to come into work every day, and it's especially hard to come into work if we're asking you to work really hard.

So first make sure you're in the right place. The second, make sure you have amazing mentorship. And then three, there's so much work to do that if you master something, you will have an amazing career.

Dave: You get those core skills.

Marc: Get the core skills. And this is not, I now have had two kids who have gone through this. One took my advice, the other completely ignored me. I'm batting about the same and it's had the same impact in our family. So I think those are find the place; don't expect it to be easy; make sure you love it, or think you love it. Because you do learn along the way. And put your head down and go do it.

Dave: I felt the pressure as a CEO and I responded to it. I know if you have, you talked about building skills, creating. But next generation wants to connect to the bigger purpose. How are you making a difference? You make a difference in the retirement world and close that gap. Do you find it's really important to link your strategy to this is bigger than Apollo? This is changing our community?

Marc: 100% and it's not just important to do, you actually need to do it defensibly. You need to be really clear. I mean you can take examples across the investment world where they adopted a theme that was convenient time and that theme is now backfiring on them.

So the first week I show up as CEO, Georgia has changed its voting law. And I have tons of emails telling me we should, at the first sign, we should get out of the state of Georgia and a bunch of other emails on the other way. And I just went, I'm out. We go back to D&I. It is hard to argue that a diverse workplace is not a better workplace. Once you agree to be a diverse workplace, to not be inclusive is idiotic. It's like we recruited these people, but we're not going to make them fit.

And then you get down to the tough one, which is equity. And in our firm, if you tell me your view, the definition of equity, I can almost always tell you your politics. And so we found this incredibly divisive within our organization. And so the rallying cry that we've done is to kind of replace our view of DE&I with the word opportunity. We are all, whether it's Noah, whether it's myself, whether it's the other leadership, we are all the beneficiaries of someone giving us an opportunity that we, quite frankly, did not deserve.

And so my message to people is go out and do opportunity. And if your thing is race, you do everything you want in race. And if it's more women a business, you do that. And if it's veterans, you do that. Don't worry about you personally being balanced, you do what you're passionate about. You don't need our permission who you hire; who you employ with law firms; who you fund. Yes it's all merit based. But you go do opportunity.

If you're working for our HR department to do opportunity, it's never going to change. HR is there to accelerate you and to recalibrate us every few years, to make sure we haven't gone too far in one direction or another. It's been really liberating to not be responsible for it. The person who comes in and complains to me that we're not doing enough in DE&I, I said that's 100% true. What are you doing? What do you want to do? Go do it. Like how can we accelerate it? Go do it.

And it's been really empowering to get 2,600 people focused on this. And in two years I'll tell you whether we're successful. I can't tell you today that it's been successful. But I will tell you, it's diffused the conversation and it feels authentic. And if they were doing centralized, it's met with a degree of skepticism.

Dave: You want leaders to take that initiative.

Marc: Of course. And I want to empower people; and I want to make it clear that as a young person, like if you're passionate about doing something, go do it.

Dave: On our journey, one thing that I've found and I'm pretty sure you thought of this as well, we broke the paradigm that to work in a bank you need to come through a commerce degree; you need to come through an MBA. And we hired with a much greater diversity of experience. And so we'll train you. We'll fill in the gaps ourself and then you can go back to school to fill in the gaps.

And I know you think some way around that that undergrads, commerce is good for a role, but you don't need to do an MBA. MBA's great for repositioning your career. And that for us has been really liberating to bring much more diverse talent and experience and educational background when you look at STEM graduates and teaching the business side, look at arts grads and teaching the business side. And that diversity is I feel in your organization today.

Marc: The journey we're on if you think about my lead-in of the things that have changed in the market, this is about an education of talented group of people who are investors, consultants, intermediaries who are really smart, but who have grown up in a system that the fundamentals that underlie their system are no longer the same.

And then you look at the other market we're in, which is high net worth and mass affluent and they've in the 1950s someone told them they should have a 60/40 portfolio and it's been updated slightly since. But it doesn't make sense anymore. And their portfolio is going to be totally different.

So, I look at the skillset in our organization, the ability to take complex things and distill them down in ways that people can understand the way to consume and believe. And most of those people who are filling that role, which is among the highest value role for our firm do not have finance degrees.

Dave: Interesting.

Marc: I have lots of times where I've come down to the bullpen of really smart people and I'll like bang on the glass and I'm like alright you geniuses, who here has an English degree? And they're all really shocked and they don't say. I'm like alright, who here has taken an English class? And I eventually recruit talent on who does this.

But the ability to distill what we do, and of course, now it's not communicated just the way you and I sitting and talking. There's a whole technological overlay, 24/7 accessibility on every device and the protocol that is easy to use and understand. So our organization, like your organization, does not look anything alike what it looked like 32 years ago.

Dave: And to your point, if you're going to successfully hunt down those marginal investment opportunities better than the next person, then you have to break the mold on how you thought about the past; and you've got to think about the future differently. And hiring differently is part of that.

Marc: Always. We are, along with two other firms who we made a commitment to, Alt Finance, so we put up 10 years' commitment to the historical black colleges, to really create an entire pipeline of graduates. So I'm down at Morehouse two weeks ago on a Friday, and they don't, it's not, Penn or Michigan where there's like every day it's like Marc Rowan's here again. But it is actually a lot of fun to go do.

And so you're down there, these kids are first, amazing, but the questions are like so interesting because they're coming at this not with the semi-knowledge that the pre-professional class have. And talk about an enjoyable afternoon. And I raided the bookstore, so it was all good.

Dave: One question, time for one question left, but I'm going to pivot back to a growth opportunity. I could talk about this building talent all day, because it's our jobs as CEOs. We spend a lot of time on strategy and talent. But your Apollo Aligned portfolio, it could be, in your own words, one of the greatest opportunities for success in front of Apollo. It was designed maybe to access more of a retail marketplace, yet you're having institutional success. Maybe you want to leave us with a message of growth.

Marc: I think it starts with the notion that things are migrating from public to private. In credit it's really easy. Because we talk about private credit all the time. The nuance that we would say is, you'll have public credit today; in the future I think you'll have beta public credit. And you'll have alpha and some of that will be investment grade.

People have yet to really come to grips with the notion of a replacement for the S&P 500. What Apollo Aligned Alternatives is, is a replacement for the S&P 500. Think about a product that is S&P return, but with the variability of fixed income. And this goes back to how we founded Athene. Athene is 95% fixed income and 5% equity. Most people would have thought we would go into private equity; but we wanted the S&P return with the beta of fixed income.

So we went into what we call hybrid equity, lower risk, lower return. 170 investments later, 13 years of experience, we've met that goal. We took all $10 billion that we had amassed and we dropped it down into a vehicle. Investors are perfectly aligned with this. And we tend to go to high net worth.

Along the way to high net worth, $2.5 billion of institutions came in side by side with us. No J-Curve, no capital calls, fully diversified by vintage, by product. Fully aligned now and in the future, because we're going from $10 to $20 billion over the next 5 years. And best yet, no additional fee. They pay just the underlying fee.

And what people look at this as, it's a replacement for S&P 500 exposure. So I believe that, again, in the equity market, I think you'll have equity beta; and then I think you will have things that are equity alpha. And just a little less liquid. Oh, and you'll still have alternatives, because I don't believe this is an alternative in the classic sense.

Dave: It's in the middle of the two.

Marc: The job of creating products and solving problems and responding to markets is beyond fun. And every day we try to have as much fun as we can

Dave: I can tell

Dave: A great message to end on, the message of growth. I find the great leaders like yourself take a complex world and create simplicity from it. I hope you heard from all of these topics that we covered and the range that Marc has this unique ability to take this very complex world, make it digestible, make it understandable and forecast it. And then marshal a team of 2,600 employees towards that and create value for $550 billion, going to a trillion dollars of AUM. You have done a remarkable job. Thank you so much…

Marc: Thanks for having me.

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