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Apollo Global Management, Inc. (APO)

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CORPORATE PARTICIPANTS

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

OTHER PARTICIPANTS

Benjamin Budish
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Benjamin Budish
Analyst, Barclays Capital, Inc.

All right. Hello, everyone. Welcome to our next session. I'm Ben Budish. I'm Barclays' analyst covering the US brokers, asset managers and exchanges. And for this chat, we've got Martin Kelly, CFO of Apollo. Martin, thanks so much for joining us.

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

Thanks, Ben. Thanks for [ph] having us (00:00:16).

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QUESTION AND ANSWER SECTION

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Maybe just starting with a high level question [ph] on just at business execution (00:00:20). So you're almost two years since your merger with Athene, how do you feel like executing on the five-year financial targets initially laid out in the October 2021 Investor Day? And where are you seeing the most momentum in the business thinking about both asset management and on the retirement services side?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

[indiscernible] (00:00:39) Thanks, everyone. Thanks for coming along. It's actually really interesting. It feels like a lot longer than two years since we did the Investor Day. But it's – and it's actually quite remarkable how much we've accomplished in that period of time. So, we actually feel great. We feel great about what's behind us. And you can see that in the financials. And we're enthusiastic about what's ahead of us as well. And so, I think, financially, achieved some of our five-year targets in three years [ph] ahead (00:01:14). So, you should expect further growth from there.

In particular, Athene's business has had a terrific two years. [ph] Athene (00:01:24) is running at higher than the [ph] five-year (00:01:28) targets two years kind of – we've been pretty specific about guiding to an earnings metric for the year of about $3.3 billion of spread earnings. And so that's up – up from less than two – just two years ago. And then, the [ph] FRE (00:01:44) asset management business is doing great. It's doing exactly as we planned, a low double digit growth last year and we're guiding to 25% this year. Within that, certain businesses, like our Capital Solutions business have also achieved their five-year plan in two years. So, I think financially we're well on track with the targets we laid out.

I think what's really important is the clarity of the strategy today is much more [ph] apparent (00:02:16) than it was two or three years ago. And I think we keep looking back to the big three priorities that we laid out, Capital Solutions, global wealth distribution, and the origination platforms. And each of them are on track or better. But I think behind that, there's now six or seven other priorities that we've been speaking about, and each of them have a plan and each of them – many of them actually are in some way dependent on the merger. And so, I think that brings us back to the alignment between asset manager and the [ph] benefit of this (00:02:54) that the merger brought about. And I think the thesis for the merger today and the benefits on the combined are clearer frankly to us, but definitely to people we interact with outside the firm.

So, we're really focused on – it's not one quarter or one year, but building sustainable growth [ph] in the earnings (00:03:19) over time. And so, I think when you [ph] move into three and the six-year timeframe (00:03:24), and looking at the comments we're making about accessing distribution arrangements and the product development and technology to distribute products, it's always aligned to creating sustainable growth over the timeframe. So, long answer, but, we're sort of halfway through, really, really pleased with with what's behind us, but as excited about what's ahead.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

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Great. Maybe let's dig into some of those. So maybe starting with sort of origination and the broader fixed income replacement theme that Apollo has been talking about for some time. Maybe to start out to level set, what exactly do you mean by fixed income replacement? I think we're all now aware, inundated with private credit, but how do you guys think about fixed income replacement? How does that differ from what we typically think of as private or alternative credit?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

Yeah. It's actually – it's really interesting. I think there are so many different definitions out there of what private credit is and what I think the predominant definition of private credit as defined by the market is, is direct lending and distressed – it's three or four things, direct lending, distressed credit, pieces of commercial real estate debt, and pieces of mezzanine credit. And the TAM for that, that aggregation is about [ph] $1.5 trillion (00:04:37). What we've done pretty specifically and transparently is [ph] define (00:04:42) private credit much more broadly as fixed income replacement. And it's predominantly an investment-grade business. And it's – we think if you look at the sort of the broadest definition of fixed income globally, which is about $150 trillion market and take out of that, govies, agencies, mortgages, investment grade corporate bonds, most securities with [ph] a CUSIP on (00:05:08) them, you get down to – and then you haircut that, we think that the investment-grade fixed income business is about a $40 trillion [ph] business (00:05:18).

So that's trade finance, it's equipment finance, it's leasing, it's commercial finance, consumer finance, all structured to be investment-grade, but at a much [ph] vaster (00:05:32) opportunity set for us. And so, that leads [ph] into (00:05:34) sort of supports a number of the sort of the next six initiatives that we've been talking about. It's also the focus of our platforms. We have 15 platforms today that originate credit. They're all focused on originating credit and ATLAS, the Credit Suisse platform is the most recent and probably the best example of that. But it's an investment-grade lending platform. It's a warehouse lender to other lenders structured with LTVs and interest coverage to the investment grade. And that's what we've done across the other 15 or 16 platforms.

So, we think that's the – that feeds our third-party insurance strategy. It feeds our [ph] syndication (00:06:14) business. It feeds our asset-backed finance business to come. And so, having a core capability in originating private credit, of which the platforms are about – about half of the overall [ph] effort (00:06:28) is really important. And we think it's a real distinct competitive [ph] measure (00:06:33).

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. So, kind of following up there, one of the opportunities that was discussed in the last earnings call was sort of the ability to now serve the fixed income bucket of your traditional LPs, not just the alternatives bucket, but the broader fixed income [ph] piece. And I think (00:06:46) you think about this as part of the larger TAM, but how big is that opportunity specifically with your existing clients and what does it take to get there? Is it just a series of [indiscernible] (00:06:54) making phone calls to the fixed income manager, not the alternatives manager? How do you get from where you are today to penetrating that opportunity?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

So, I very bluntly define the average allocation is about 20% equity [indiscernible] (00:07:09) 30% fixed income and 50% everything else. Equity is private and venture capital, real estate [ph] and (00:07:18) infrastructure, et cetera. Most of the fixed income, like the far, far majority of that fixed income 30% is liquid securities in a structure that doesn't need liquidity. And so, if you can provide an alternative with [indiscernible] (00:07:34) risk, [ph] but

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less liquid or yield (00:07:35) [indiscernible] (00:07:38) performance of 100 basis points to 200 basis points, which is the whole construct, then ph] you (00:07:42) have a massive addressable marketplace in the fixed income component of LP allocations.

And so, it is a question of sort of walking into a different office. The [ph] whole (00:07:55) business has been focused on the office [ph] allocates of 20% booking (00:08:00). But we see a much [ph] vaster opportunity in fixed (00:08:04) income replacement, fixed income office and providing appropriate risk-return – similar risk-return [ph] on (00:08:11) investment grade, but for an outperformance in yield given the low liquidity which [ph] made these to LPs (00:08:17) [indiscernible] (00:08:20).

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

And on the origination side, again, thinking high level about Apollo, can you talk a bit about the path to achieving the target of $150 billion in annual origination dollars across [ph] your (00:08:29) traditional high-grade alpha, your platform origination? I think you currently have 16 platforms. You've indicated a handful are fully scaled. How much volume growth comes from scaling the rest, incremental M&A? And maybe you mentioned ATLAS, can you kind of touch on where you are with that integration and the ramp there?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yes. Sure. So the $100 billion or so that we're producing today is roughly 50% of platforms, the 15 platforms and I'll come back to that and 50% everything else. And the everything else is large cap corporate lending, it is commercial real estate, origination, debt origination, it's CLO origination. It's the rest of the sort of the corporate franchise. And so, to get from [ph] $100 billion run rate today to $150 billion (00:09:15) run rate over time basically requires the platform to double. If we can make the [ph] $50 billion a $100 billion (00:09:23) with normal growth in everything else, which is probably conservative, I think, then that's the path to get there.

So what we're all about, if you – if we look at the 15 platforms, 16 platforms today, four or five of them are scaled and account for the majority of the assets and then the rest are [ph] even (00:09:42) scaling [indiscernible] (00:09:43). So what we're really focused on is [ph] when (00:09:46) we can get scale out of the remaining platform. It's probably not a question of [ph] sort of finding (00:09:51) a lot more platforms and going into newer asset classes than it is scaling what we have. It may be combining what we have, but getting more scale [ph] and (00:10:02) efficiency out of what we have.

If we look at ATLAS, ATLAS alone [ph] can't probably get as much boiled out (00:10:11), I think. And so, that's a – the – to your second question, the businesses onboarded extracted from the CS infrastructure, the team is in place, our business is strong. ATLAS has actually originated about 30 securitizations this year since we closed the transaction. And so – and it's a really interesting business. It's a lender to lenders. There's 300 borrower relationships within that ecosystem covering both consumer and commercial finance. And so, we – in the form of mostly warehouse lending, and it's basically structured to be investment-grade. So, all of the warehouses have LTVs that they get each individual warehouse up to an investment-grade rating.

And then it's just a question of what we do with it, how we bundle it and tranche it and distribute it. And the [ph] homes (00:11:07) for that distribution multiple and create different fee revenues for us. But the basic thesis is to grow that muscle. And so, that will also help our asset-backed finance business, if we get that off the ground. But, most of the growth comes from – in our base plan comes from the 15 platforms, of which most of that comes from ATLAS.

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Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Great. You touched on it just briefly, but can you maybe walk – you mentioned the fees. Can you walk us through the revenue model for the whole platform origination ecosystem? Are you earning syndication fees to these assets? [ph] And up in (00:11:41) Apollo funds where you're earning management fees? How much is going on to Athene's balance sheet? How does it all spool up in P&L?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yeah. This is – if we look back to when we did the Investor Day, this is the fees that was the least understood in terms of translating sort of effort to revenues. It's clear if you [ph] grow the wealth business that (00:12:04) comes with a fee rate and you can sort of put that into a perpetual revenue stream. And it's also clear if you grow a syndication business, given volume assumptions, you can create a fee business.

The origination business, I think has become clearer. I actually think the CS business has really catalyzed in people's minds what this is all about, this whole strategy. But our basic premise is, is we want to have significant skin in the game in the form of what we take on to Athene's balance sheet and distribute the rest. And so, the basic construct is keep 25% of everything and distribute the other 75%. That alone provides a real alignment benefit that LPs look at and [ph] so (00:12:53) recognize that if we're taking that much risk on our balance sheet, then, we're sort of – we stand behind the credit, [ph] we've done (00:13:00) our work and the underwriting standards are sufficient standards.

The – so where does the other 75% go? [ph] We'll (00:13:09) with the 25%. 25% goes on to Athene's investment-grade balance sheet. With that yield, it creates the SRE that comes [ph] through overall (00:13:16) earnings. So that's relatively straightforward. The other 75% goes to other insurance company buyers of investment-grade rated paper for which we earn a fee, upfront fee, and then that's it. Or – and/or it goes to third-party managed accounts for which we earn an ongoing management fee. And I think increasingly in the future, it will go into our third-party insurance business, which will be effectively a customized managed account for insurance companies and to support our asset-backed finance business.

So, 25% by dollar volume creates SRE. And then the rest has been more weighted towards Capital Solutions fees [ph] today, but (00:14:01) with an increase in that business over time, I think there'll be an increasing amount of management fee growth that comes from – through that [ph] throughput (00:14:09).

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Great. Maybe moving over to the asset management side of the business. So maybe first with fundraising, how would you characterize the current fundraising environment for the more traditional drawdown funds? How are LPs thinking about asset allocations? Are there still lingering denominator effect issues, or is it more about kind of capital return? What's sort of your high level [ph] kind of take (00:14:27) on the environment there?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yeah. So we closed [ph] Fund X (00:14:31) at $20 billion and we're actually very happy with that. It was [ph] not the $25 billion that we set out (00:14:37) for, but in the market that exists for [ph] PE flagships, we think it was (00:14:44) a great result. I think what's happening – like, the environment is definitely more difficult than it was a

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few years ago, without question. But I think it rewards managers that have quality product and good returns. And so, it all comes down to sort of risk-return tradeoffs and how LPs want to allocate their capital.

So, if I look at what we're in the market with today institutionally, part of it is just the next vintage of fund families, all of which are performing well and all of which [indiscernible] (00:15:17) fundraising is going well as expected and without the headwinds that I think the whole market has experienced on PE flagships. And then, there's innovation. Then, there's the new products, part of which are Apollo-led, where I think we have a distinct advantage like AAA, and like asset-backed finance. And then part of it is just market evolution, the way the market is leading – is going in terms of climate finance, transition, secondaries and the like.

So, if we look at – and we can talk about retail separately, but as we look at the market for institutional capital raise, [ph] Frontend (00:15:53) has gotten behind this, the pipeline of other funds in market is really healthy and diverse, and fundraising is going well. And so, I think this year, we'll raise more than last year. Last year, we raised [indiscernible] (00:16:08). And so, it's – and part of that is product design and part of it is distribution. But it comes back to the comment I made upfront, which is incremental growth over time to create a sustainable increase in inflows [indiscernible] (00:16:20).

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Maybe looking forward, part of the strength in the third-party fundraising is coming from progress on your kind of next six organic initiatives. Can you kind of remind us what those are and maybe highlight any significant wins from this year?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Sure. I'll try to get the [ph] six side. So, so firstly (00:16:38), firstly is AAA. So, AAA, which has probably had the most attention, AAA is the equity alternatives portfolio of Athene, which has been branded as AAA and is now being marketed to both institutional and retail investors. And so, this is a portfolio that brings with it expected 11%, 12% returns over time. And it's not public equity, it's not venture capital. It's not the typical private equity investments that insurance companies own, it's about half platforms. So, the [ph] same three (00:17:15) platforms that create the origination, including ours, including midcap, our direct lending business, including Wheels Donlen, our fleet leasing business and [ph] all 15 (00:17:23), most of them are in some way – in some part owned by AAA. [indiscernible] (00:17:31) investments in other insurance companies like Athora and Challenger. And then it includes investments in a whole collection of Apollo related funds. And so, the benefit for [ph] investors that (00:17:42) look at that is, it's a fully invested portfolio, [ph] day one with no J-curve diversifying (00:17:49). It actually has more fixed income characteristics than it does equity because the underlying portfolios are investment-grade lending platforms for the most part. And so that business has had a lot of attention, and both in institutional and retail channels and within retail, [ph] let's say (00:18:09), family office has been particularly interested in it.

So, that [ph] product (00:18:13) over time we think – we've said this before, we continue to believe that this should be and can be our largest fund over time. And so, that's a question of balancing Athene's ownership of it, with third-party ownership of it, which we think is probably 50/50 over time. So as Athene grows, that portfolio definitionally grows, and then we'll bring in third-party capital to create growth in that portfolio. And then, it becomes a question of portfolio allocation and where we invest the capital. So that's one.

I'll try to do [ph] that as well (00:18:45) quickly.

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Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Okay.

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

So, Altitude is a product that [ph] we (00:18:51) branded as an annuity wrapped series of credit products. And so, this is much more nascent. It's at the stage of development and in discussions with distributors. But the basic construct, which I think is very appealing is to offer Apollo credit products within an annuity wrapper. So tax deferred in a retirement account, accessing [ph] mid- (00:19:17) single digit down to low double digit [ph] type businesses (00:19:24). Nascent, we'll have, I think, appeal and traction over time.

Third-party insurance is important to us. We've – up until now, we have – most of what we [ph] can produce Athene wanted (00:19:37), Athora wanted. And so, now with the 15 platforms and the other businesses that [indiscernible] (00:19:43) we have excess production. So, we onboarded about $7 billion of AUM from third-party insurers in the first half. And so, our whole construct here is to focus our private credit origination, as we define it, into a package which is appealing to third-party insurers. And there's no reason this can't be a successful business. We've done it for Athene for 15 years. And so, part of it is access to interesting credit. Part of it is the support that an insurance company needs in statutory and other reporting.

So, that's three of the six. Four is sidecars. Sidecars just customize accounts that come in and invest in a parameter of investment criteria [indiscernible] (00:20:28). We're very [ph] proactively (00:20:30) involved in that strategy this year. What are we missing? Oh, climate, climate and secondaries, thank you.

So, climate is really interesting. We all read the statistics on how much transition financing the world needs and it's trillions of dollars per year for decades to come. So, climate is a business that is both – it's actually three things. It's equity business, a hybrid business and a debt business. And so, it's offering financing solutions to companies to transition and to provide capital, which is in short supply from other sources. And so, that business, I feel particularly [indiscernible] (00:21:15) we've raised $4 billion of capital for it as a start.

And then, lastly, is our secondaries business, which is also a couple of different things. It's equity secondaries, credit secondaries, and GP financing. And it's to deal with continuation funds, GP [ph] monetization (00:21:35) in both the equity and the credit space. And also includes net financings, which we see as a particular opportunity. So, we've also raised $3 billion or $4 billion of capital for that effort as a start to that business.

So, that's the six. I would add a seventh, which is asset-backed finance, which we think is a massive opportunity and is fueled by the origination that the platforms create, starting with that was, but all the others as well.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. Well, that's very thorough. Appreciate it. So, maybe putting this all together, thinking about your 2026 FRE per share target sort of implies like a 16% three-year CAGR, AUM growing a little bit faster, driven by the sort of lower yielding – the lower fee yield segment. So, maybe just kind of putting some of those pieces together and maybe talk a bit about how much of the effort these growths comes from operating leverage, broader fee generating AUM growth and the Capital Solutions business kind of from here to 2026.

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Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yeah. So, I'll make a few comments. The basic math is create close to mid-teens revenue growth plus operating leverage gives you mid-to-high teens FRE growth over time. Our margin today is around 55%, 56%. And over this timeframe we see it stepping up in a pretty linear fashion actually to about 60% or a bit better. So, that's the math.

I think the interesting thing about our business is all of the initiatives that we just spoke to, the six plus the asset-backed finance and actually most of the initial three are being funded through P&L, OpEx. And so, when we did the Investor Day two years ago, we laid out [indiscernible] (00:23:18) investment capacity target, of which pipeline was earmarked for strategic growth. We actually haven't spent much of that and we haven't really seen a need to spend much of it. We bought a retail distributor, Griffin [indiscernible] (00:23:33) investments in retail technology platforms that were significantly underspent on that. We've also spent nothing on M&A.

And so, we're thought of as a sort of capital-heavy, balance sheet-heavy company by some. We actually think we operate in a very balance sheet/capital efficient way. All of those initiatives, for the most part, for the ones I mentioned, are funded by P&L. And so, every year, we're doing it right now as we go through a multi-year planning cycle, we lay out what we think the growth priorities should be, how we're going to fund it and prioritize it. But the funding will come through P&L, OpEx.

So, we absorb the cost before the revenues. We lay it out and sort of sequence it in a way that we can accommodate the targets that we've laid out.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Great. And maybe one last question sort of under the asset manager umbrella. In the Capital Solutions piece, you're running nicely ahead of your longer-term target of $500 million annually by 2026. So, maybe what's gone well here, how this business kind of evolved? And is it perhaps a framework that investors could apply to think about like how big could it be as a percentage of your AUM or transaction volumes? Or how should we think about like what the potential is there?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yeah. It's a great business and it's developed much more quickly than we thought. We actually think it's much more stable in terms of the profile than is understood. And if we look at the business, if we look at the construction of transactions that contribute to that, it's a series of securitization flow type transactions from the platforms, including ATLAS. It's a whole variety of credit financings. And then, it's a little bit of co-invest capital. And we think that all three can grow over time. But if we look at the construction today, the [ph] far (00:25:30) majority of capital that's creating those – for capital being syndicated that's creating those fees is credit, and the majority of that is investment grade.

So, I actually think it's quite a different business from most of our peers have in the sense that it's focused on, sort of, investment grade credit. And while I think each of those three components of it can grow, the business is nicely diversified, it's corporate coverage, it's sponsor coverage, it's growing outside the US. And so, we see, sort of, growth at the channel level. We'd also see growth in Europe and Asia. And so, we're not updating our targets for the business yet. But I think it is an area – there's certainly where we are is not where we intend to be going forward.

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Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. Maybe moving over to retail. So, I feel like I've heard Marc say it several times. He thinks client portfolios – retail portfolios could, what, maybe 50% allocated to alternatives. So, with that in mind, maybe to start how much of your flows today come from the retail channel and where are you in terms of building out your distribution?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

Yeah. I think this is probably our most complex new business development. And it's going well. We raised $6 billion last year and have said we'll raise $15 billion per year by 2026. We're well on track to do that. So, I think the targets are modest and certainly achievable. It requires four or five or six different things to happen together to make this business successful. And so, it comes back to the same comment, which is putting in place the components to create incremental growth over time. Part of it is product design. And so, within that, part of it is making sure we have products that the market recognizes. And part of it is creating distinct products that bring a particular advantage because we're offering something that's unique in the market.

Examples in that regard would include AAA and Altitude and asset-backed finance. Part of it is offering a combination of typical sort of drawdowns to our funds, which some investors want, retail investors. Part of it is [ph] through financial capital funds (00:27:50). Part of it is technology, making sure you have the right technology distribution. So, investing in platforms that can create scale and operational efficiency. And then there's distribution, making sure and education, actually. So, we've launched Apollo Academy. I encourage you to look at the website. I think it's a really good primer for investors to look at what we offer to retail investors.

And distribution agreements just take time. We're building on different wirehouse distributions that create product shelf, realizing that there's not going to be that many firms that can get space on the shelf. So, we want to be one of those firms. So, we have – I'd say stepping back, we have the right leadership in place in each of the geographies. We had five products in market at the start of the year, we now have seven. We're going to add one a quarter or something like that. So, it's getting a lot of focus internally, but it's one of these things where it just takes each quarter is better than the quarter before and it's just an incremental growth over time.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

And can you maybe drill into AAA just a little bit. I know we spent some time talking about that earlier. I think you recently mentioned private bank platforms, but more in the US and internationally slated to come on in the second half. Obviously, you've kind of said here and have said previously, you think about the potential to become Apollo's largest fund. So, maybe just more recently, what have kind of retail flows looked like into that fund and what does the sort of trajectory look like as you approach that target? Is it sort of more penetration within existing distribution partners, more widely distribution? And how do you kind of get there?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

Yeah. It's all of the above plus family offices, which is a separate effort, but related to it. So, each quarter, we have seen incremental growth or marginal growth in the inflows. And so, I think in the last quarter this year, we should be running at north of $500 million. I think we should be running at sort of [ph] $4 billion (00:29:54) of retail demand. So, same story, just build it, and build it incrementally each quarter and it gets traction and you get access to different channels and the growth should step up over time.

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At the same time, balancing that with wanting to make sure that Athene always has something close to 50% ownership in the structure. But this is like – back to the capital efficiency point, this is something which is becoming, I think, better understood but not fully understood. Most of the platforms that we own today are on through AAA. And so, we have very few needs to spend holding company capital because we have other forms of capital. AAA is one, ADIP and ACRA is the equity sidecars to Athene, our another real strategic use of capital. But the AAA can provide a very attractive risk/return to investors, while at the same time creating platforms that create origination of seed, SRE and then syndication fees [indiscernible] (00:30:54).

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Great. Let's move over to the retirement services part of the business. So, in terms of Athene's flow outlook, you guided to $60 billion plus of inflows this year. So, what are the key drivers? How much of this is from expanded distribution, higher rates, driving just more demand in the retail and [ph] PRT (00:31:10) side, M&A environment for inorganic blocks? And maybe thinking longer term, how sustainable is the outlook growth into 2024 and beyond?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.
A

Yeah. There's a lot there. So, I would say, certainly higher rates are attractive for the opportunity to sell annuities. And so, the whole market has seen an increase in volume of sales. What we've not seen this year ourselves is funding agreements. And because spreads have been wide, we don't need to issue funding agreements that don't produce attractive ROE and we have not seen for some years now inorganic transactions in the US. And that's just – it's a incredibly competitive marketplace with 100 people chasing the business and we don't need to compete organic transactions.

So, with both of those sort of footnotes, the business has grown and we're guiding the business to be a $60 billion plus business this year, which is really fueled by annuity growth, by reinsurance transactions, and by pension risk transfer, pension group annuity transactions. And so, each of them have grown principally in the US this year. And so, part of it is [indiscernible] (00:32:28), part of it is access to different distribution. We've been, up until now, most of the annuity distribution by Athene has been achieved through IBDs and RIAs. We've recently been launched on the JPMorgan and UBS platforms. And so, that's the start of I think further wirehouse distribution. And so, even with our production today, that has effectively zero contribution from those two platforms. So, more to come there, and then more to come from two, three, four other platforms that we're in dialogue with, which should hopefully come online over the next 6 to 12 months.

So, the annuity business, I think, our competitive advantage in that market is pay, our ability to earn extra spread on the asset side and our low cost structure. And it just makes us very competitive in the marketplace. So, the annuity business is sort of run-rating to higher levels in the US. The pension group annuity transaction business, without a question, higher rates have helped the funding side of those pension plans. I think our rating – there's really three players in the market sort of PRT, we're one. And I think our rating – increases in the rating over the last few years has really helped our ability to be a counterparty to corporate pension plans. So, that market, which is about $50 billion last year across the market we think is, sort of, [indiscernible] (00:33:55) further transaction growth, not just here, but outside the US as well.

And then reinsurance is benefiting from the overall growth, it's a flow business. So, it benefits from the overall growth in the business. But then we look to Asia. And so, Asia for us in Japan and then Korea, Taiwan, Australia, Hong Kong, we think we see meaningful growth over time. So, same story, incremental growth, putting in place

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new products, new distribution arrangements that can make sure we have a sustainable flow of production increasing year by year.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. And can you talk a little bit about Athene's various sources of capital. So, for example, you recently issued a $1.4 billion convertible bond that was expected to support growth of retirement services business. So, what are your thoughts on the overall expected pace of deployment and the overall impact of this additional capital? Was this kind of sort of contemplated in the 2023/2024 guidance as anticipated, or is this kind of additive on top of what you provided last quarter?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

Right. So, Athene's [indiscernible] (00:34:58) earnings growth for each of the last two years, and that's not to say it all, but what we're guiding to is our long-term target. So, that's for the earnings guide. I think we'll provide [indiscernible] (00:35:10) guidance to connect all the dots later in the year. But we do feel like a leading business. It's a rich environment to be originating liabilities on our platform and other origination businesses. And the asset allocation paradigm that connects that to liability production is creating really attractive ROEs. And so, we see really meaningful growth in the business. So, the convert, the mandatory, if you'd – to the use of proceeds, if you like, to create growth additive, above and beyond what we're seeing today. And then that fits into the overall capital allocation framework, which is we want to be a regular buyer of our stock above and beyond employee comp [ph] immunization (00:35:57). We want to be competitive in our dividend. We think that's [indiscernible] (00:36:00). And so, we increased our dividend this year. That's the start of what should be programmatic.

And then we want Athene to continue to pay a dividend upstream to the holding company consistent with what we've laid out then. We want that practice embedded in the discipline of how that business is run, including with regulators. So, we're not saying much of which I spoke about is strategic price investments. This is not that much that we finance to do. So, that's why there's plenty of organic growth and capital allocation will follow that paradigm.

But if we – the interesting thing is, if you look at – if a decision for us is invest more or less at Athene which you can think of as at margin of injecting capital down or adjusting the dividend, when you pair the return on that capital with the return – with the contribution from ADIP, the equity sidecar, you get to a 20% or better return on equity when you consider the SRE accretion from that additional business, as well as the FRE accretion from managing the assets and the FRE benefits are the same regardless of whether the assets sit on Athene's balance sheet or they sit on the balance sheet of the sidecars.

So, that's growing Athene is really attractive from an earnings and an ROE perspective, but so is buying back stock at a high-teens growth rate. At today's multiples, buying back stock is also attractive. So, we have good choices and we thought that issuing a convert would help preserve those choices. At the same time, Athene is under-levered and has the capacity to issue more debt, if the environment presents itself. But that's not where we want to be right now.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. I guess time for one or two more questions. So, maybe we'll want to turn to something you mentioned earlier about the possible seventh of your kind of next six, which is asset-backed finance. You've talked about, I

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think, even $20 trillion opportunity. How does that evolve over time? What sorts of assets company looks like? Who are the eventual owners? And how important are Athene, your third-party insurance partners? And the broader theme of taking assets or partnering with regional banks, [indiscernible] (00:38:18) how long does this all take to play out?

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

Years, decades, probably. I think it's – we are a good owner of assets and so, we want to be a partner to banks that want some balance sheet [ph] flexibility (00:38:34). So, it's a similar set – talks about the $150 trillion [indiscernible] (00:38:38) fixed income replacement. It's a similar set. It's a subset of that, but it's covering many of the same asset classes. So, we can – our plan is to have a fund franchise around this. But the only way you do that is create origination. And so, making sure that the platforms are set up to create origination, making sure we've got partnerships with banks that create assets to play, partnering with banks in most cases to do that in ways that are advantageous and economical to both is what we're really focused on.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Great. Maybe just our last minute here, one more question on a completely different topic, but something that is topical overall, how do you see developments in AI tech impacting financial services industry? And how are you or are you currently planning to incorporate it into Apollo? And you can give...

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

A

We've got 36 seconds. I think it's a large opportunity over time. I think it has lots of different applications for companies like us, fee companies at the [indiscernible] (00:39:45) within the firm from the investing perspective, as well as how we run the firm operationally. Each of the [ph] three (00:39:52) platforms that we own. But I also think it comes down to data and is data in the right place with right governance around that? And is it high quality enough that you can trust it to use to make decisions? And I don't have that. I think it's [indiscernible] (00:40:10). So, I think it all comes back to data and data governance and use cases. I mean, there's lots of hype around this, but you need to look at actual use cases and how can you actually use this in a way that you can trust it to create efficiency and make decisions.

And so, I think that's where the rubber is going to hit the road, I think. We spoke into all the consulting firms, all the accounting firms, many of the tax or the law firms about how their clients are doing this, and it used cases – so I think it's going to take some time.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Got it. Great. Unfortunately, we're out of time. But Martin, thank you so much. Appreciate having you here.

Martin Kelly
Chief Financial Officer, Apollo Global Management, Inc.

Appreciate it. Thanks. Thank you.

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