APOLLO

Apollo at the Goldman Sachs US Financial Services Conference
December 11, 2024

Alex Blostein: Okay, great. Good morning, everybody. Welcome back to the second day of our conference. Great to see so many folks here over the last day and today. And hopefully everybody continues to enjoy the event and have productive time today as they did yesterday. To help us to start Day 2, it's my pleasure to welcome Mark Rowan, CEO of Apollo.

Apollo, of course, is a leading global alternative asset manager insurance business with over $730 billion in assets under management. 2024 was an excellent year for the firm on many fronts, highlighted by accelerating its unique origination capabilities, robust pace of fundraising, strong investment performance, scaling of many initiatives, and the list is pretty lengthy here. Clearly did not go unnoticed. The stock is up 90% or so year to date. And to top off a great year, Apollo was included in the S&P 500, last week announcement came out.

So with lots of momentum, lots to talk about, Mark, thank you for being here. It's great to see you. It's great to see you this year in particular, so we're happy to see you.

Marc Rowan: I told you under all circumstances, I would have been here.

Alex Blostein: Yeah, there you go. Although that would have probably extended our conversation beyond 35 minutes. So I was hoping to start with 2025 priorities. Two months ago, Apollo held an Investor Day, set several long-term targets, including 20% growth in FRE, 10% CAGR in Athene, and ultimately more than doubling the firm's earnings power to about $15 a share by 2029. As you turn your focus to execution on some of these initiatives, what are you most focused on into next year?

Marc Rowan: Look, it's the three basics we do: strategy, execution, and management and development. That's what we do. So strategy is in place. I think we're right. Time will tell if we, in fact, are right.

It's now all about execution in the business. The two businesses, as you know, have slightly different cadences to what they do. On the asset management business, we've made a series of choices as to what not to do. There's too much to do, and we have to figure out what we think is scalable, where we have a right to win, where we think there are moats, and we articulated those at Investor Day. In summary, fixed income replacement, direct lending, hybrid equity, driven in part by the need for capital for what's going on in the global industrial renaissance.

On the retirement side of the business, it's a much more open aperture. We have built the business on products that in one form or another have existed for 50 years. The next leg up of growth in this business is products that don't yet exist. The industry has not been a great creator of product, and I think there's an opportunity for massive disruption by getting it right. And I think we're well positioned to get it right.

Alex Blostein: Great. We'll get into a lot of these topics. Before we go there, maybe turning to some of the recent events. It's worth noting your recent consideration for the Treasury Secretary nomination. It was quite widely publicized, probably more so than you would have liked. While we won't ask you specifically to comment on that, I was hoping you could speak to the depth of current management team and your broader succession planning in the way the firm is placed today.

Marc Rowan: So we do formal succession planning. It is a requirement of everyone who runs a business. So it's not just the top 5 or 10 people. It's someone who runs distribution. It's someone who runs global wealth. There's the do not break glass, pull the envelope out of the drawer succession plan. But no, in seriousness, this is part of the responsibility that we think we have in stewarding a company is to make sure that everyone has a backup, myself included.

And for me, I'm fortunate I have two very, very senior partners in the asset management business. I have two very, very senior partners in the retirement services business. And then we've elevated the next generation, which is another 10 in asset management and another handful in retirement services. So I think you should look to the next 12 months as we will start really pushing forward the next generation and making the transition before we need to. That's no different than what happens inside your firm where leadership is constantly being pushed.

Part of what's happening is we have to accept that the environment is going to be different than the environment that we faced for the last 5 or 10 years. The big kick that we're on and one that I think it's just important to realize, all of our industry has been really successful. People may or attempted to take a breath, take a victory lap, or they can keep trying to win. I want to make sure that we have a team that is not tired, that wants to win. Because winning is going to involve changing. It's going to change the way we do -- the shape of our firms is not going to be the same in the next five years. It's going to -- we'll look back in five years and these firms will all be really different.

Alex Blostein: Sticking with some of the current events, the incumbent administration is likely to drive material changes across markets with investors broadly. Pretty optimistic about deregulation and acceleration of capital markets activity that was very evident over the course of the last few weeks. Definitely came through here yesterday on the stage. While obviously still pretty early days, I was hoping we could talk a little bit about what are the implications of the Trump 2.0 administration for private markets, and Apollo specifically, anything in particular you're focused on?

Marc Rowan: I'll say it this way. Our industry and our firm, we prospered mightily over the past four years. If you think about the bargain that was struck politically for the Biden presidency, going back to the early days of how he was elected, there was a bargain struck where the progressive wing of the Democratic Party, Bernie Sanders, Elizabeth Warren, were given control of the financial regulatory apparatus. Okay. I could not envision a more hostile environment to private capital than the last four years. Enough said.

Look, you and I were talking about this outside. Clearly there are unknowns, but relative to what we knew and what we know now, everyone is more relaxed. I think we have just an unbelievable set of opportunities in front of us. And I talked a little bit about this at Investor Day. We have witnessed incredible changes in our stock market and our bond market over the past 20 years, the past 10 years, indexation, concentration, passive investment. And the result has not been bad returns, but the result has been very concentrated and very risky returns.

Alex Blostein: That's right.

Marc Rowan: And one could say that we don't even have a stock market from a valuation point of view on a short-term basis. We have a capital flow into the U.S.

We essentially have levered the retirement of most Americans to the outcome of NVIDIA. It doesn't feel like that's really intelligent for us to have done. While it goes well, no one says a word. But the moment it reverses and goes poorly, everyone will look around and say, how did we let 10 stocks become 40% of the S&P and four stocks provide all the return? And you look at what the $12 trillion to $13 trillion of 401(k) is invested in, it's invested in daily liquid index funds for 50 years.

Every place in the world where private assets have been introduced into retirement, you've not gotten just better outcomes, you've gotten 40% and 50% better outcomes with lower risk and greater diversification. This is Australia, this is Mexico, this is Israel, this is everywhere it's been done. Eventually, sensibility will come here. We think we're protecting these people, and really what we're doing is we're consigning them to just a unique set of risks that they don't need to bear because they're long-term investors.

So I'm very optimistic that we will see change there, which does not mean private equity, hedge funds, venture capital into people's retirement accounts. It just means that if we're down to 4,000 public companies and the vast majority of our economy is private, long-term investors will find a way to participate in the economy.

Alex Blostein: Let's stay with regulation for a couple minutes. One of the big themes you've talked about for really several years is the notion of debanking and what that means for private fixed income firms and the opportunity set there. If you take the other side of that and the bank regulation gets easier, which as many people think it could, is there a re-banking argument? And how do you think about the supply-demand dynamics for private fixed income investing in that scenario?

Marc Rowan: So whether there is reduced regulation or just a change in tone, it is clearly going to be a better environment for the banking system. There's no way not to believe that. I come back to some of the themes I said at Investor Day. We are, and us specifically, we are at the end of the day a relatively small asset manager in the scheme of the world. We manage today, round numbers, $600 billion of credit. Of that $600 billion of credit, round numbers, $450 billion is alpha, $150 billion is beta. For me to double my business over the next five years, I need to originate $450 billion of credit against this immense demand for capital coming from lots of places.

The banking system, at the end of the day, funds itself short. It is not a great long-term lender. That's just the beginning and end. And then you look at what's happened on a human capital point of view. For the last five, six years, we've taken 300 to 400 senior bankers from their job inside the banking institution to firms like -- to our firm, but this has happened across. There's been a movement of knowledge and a movement of relationships and a movement of competency.

The final thing is, at the end of the day, banks are commercial enterprises. They want to maximize their ROE. To the extent they can provide more services to clients which do not require capital, and not have to have the asset on their balance sheet which does require capital, they will do that. On the margin, will banks be better competitors? Absolutely.

I come back to we -- I don't want to say we saw this. We didn't see it. We were lucky. We needed origination to serve our own balance sheet. We built origination going back now almost 15 years. It is the largest investment we've made in both time and money, some $8 billion, some 4,000 people. Everyone else is just waking up to this. And they're waking up in a climate that is going to be harder for them to build what we've built. For us, from a metrics point of view, we originated close to $200 billion on an L12 basis. And we think we need to get to about $275 billion recurring. I'm optimistic that we'll get there.

I'll give you two things to think about just to size this opportunity. The first is the scale of capital that's required for infrastructure, for next-generation data and power, for reindustrialization of the U.S. The new one is now we're talking about energy accretion, not just energy transition. The vast, vast majority of this capital is long dated. A lot of it is project finance. There's plenty for our whole industry to do here at the right risk/reward.

The one that I think we haven't really appreciated enough is the whole notion of levering of private assets. You can borrow regular way margin against publicly traded BDCs. The private BDC that holds exactly the same assets as the public BDC has zero margin. Why? We don't know. The notion of actually levering private assets, and I don't mean on a risk basis, I mean on an investment grade basis with appropriate haircuts, I think could be the single biggest opportunity that exists for firms like ours.

I think you're seeing it take place already as the banks have retrenched from lending to their clients against their private portfolios. You see us entering into partnerships with the banks where the banks are now maintaining the relationship with their client. They're making loans, but those loans are with our money on prescribed haircuts, on prescribed bases. I think this is going to be a really, really interesting way of doing business. I look at the loans that are available to the Apollo professionals with personal guarantees, with firm guarantees, that then they use to invest on a haircut basis into Apollo products, and they're fundamentally mispriced.

Alex Blostein: Let's take this a little bit further. You talked about origination being the lifeblood of your business. You obviously just spoke to that as well just now. That obviously will have pretty meaningful implications for fundraising. In the past, you talked about fundraising is not a binding constraint, which it isn't. But as you think about the pivot you discussed at the Investor Day with focus on third-party insurance and third-party capital, I wanted to get in a little more into that.

Today, you guys manage about $100 billion in third-party insurance AUM. You're expecting that to essentially double by 2029. That has not been a big driver for Apollo until recently. What's changed? Is that a function that just a lot more to originate and now you can actually fill some of that demand, or there's something else at play?

Marc Rowan: So it's really a couple of things. The first is a maturation of the industry. We started in 2008, 2009, and we were fighting the industry. And now we're leading the industry and we're partnering with the industry. Look at the public announcements with MassMutual, Pacific Life, MetLife and a bunch of the other, which you would consider very traditional companies in the industry. The industry has hit the point where they understand that public is not safe and private is not risky. They're both safe and risky. And they are now approaching this without their competitive hat on, like how do we kill Athene to how do we actually get some of that? They've figured out that we are 25% of everything and 100% of nothing, so we're actually in a line good source of that.

But what really happens here is a question of risk taking. We are not the institution who makes massive bridge loans and hope that things work out. We are originating for our own balance sheet, and by originating, capturing excess spread and structuring things in a way that work on our balance sheet. As large as we are, we have limited capacity. So we have funds. We have SMAs. We have sidecars. But the people who need exactly what we need are other insurers. And so to the extent we have twice a big a wallet of committed capital from people who look just like us, we're just that much more competitive on the origination side. That's what gives us confidence to take down $11 billion for Intel.

It will not surprise me this year to see your first $15 billion or $20 billion deal in the private markets. I think it's coming. And for us to scale to meet some of the capital needs, particularly at the larger end, having adjoined objectives with other insurers who want the same outcomes feels like a really good way for us to focus. We've taken one of our most talented executives, Jeff Jacobs, and said, this is yours. Go get it. And so we're going to go get it.

Alex Blostein: Let's pivot a little bit. Credit has been obviously the largest driver of growth for you guys over the last several years. But I thought it was interesting, you spent quite a bit of time on equity opportunities well at the Investor Day, and you expect that to be part of your five-year growth plan. Can you expand a little bit on what your ambitions are on the equity side?

Marc Rowan: I'd say the following. I've said pretty freely, the maturation of our industry, which has historically been served out of the alternative buckets of our institutional clients, the buckets are full. And so I do not expect tremendously different fundraising. If you think of some of what's been in those buckets, because they've been perceived as risky, they've had very high costs of capital ascribed to them, 15%, 20%, 25%. How many assets in the world give rise to those kinds of rates of return, which is a small pile, maybe this high off the chair? It's just not clear to me from a fundraising point of view, from an asset availability point of view or from a professional point of view that full-risk businesses, venture capital, private equity, hedge, can be scaled and still offer excess return.

However, we also have seen this sea change in equity. We were 8,000 public companies. We're now 4,000 public companies. More companies go private than go public. We think nothing of Spotify or Stripe or OpenAI as private for longer. Why do we think this is limited to tech companies? I think we're going to end up with a whole universe of companies that are private, and what I talk about is we will own equity that is private rather than private equity. Think of active management of the future as being the private equity skill set but without the leverage.

Until we get there, because that will take time, because that's a whole new way of thinking for institutions and for individuals, there's lots of things that fall between fixed income and equity. So the 13% contractual cash flow, really good deal that is denominated in equity but low risk, low leverage, where does it fit? Well, it fits in my portfolio. I don't know how many of your portfolios it fits in. But institutions who have historically backed private assets have not been set up this way. They've been set up in boxes. They're in the public equity box, the public debt box or the alternative box. In the alternative box, they have a really high cost of capital, and that box is full.

So we've watched over the past 15 years of the best risk/reward in the market, which is neither the lowest risk nor the best reward, but the best risk-reward has not had a home. And therefore, even in a market awash in capital, excess returns have come to this area. You look at what we've done with our principal capital. The vast, vast majority of our principal capital is invested in this hybrid area. And just by background, the flagship fund in this area is circa 12 net, of 40 quarters, it's had one down quarter in the last 40. I like that volatility, which is more return than fixed income, but fixed income-like volatility without being tied to duration, without a lot of leverage.

And what we're finding is that works in a certain number of people's portfolios. The biggest demand for it comes from regulated balance sheets like ours who want the excess return, but don't want the volatility because equities get reported on a current basis versus a mark-to-market basis; family offices who are preserving generational wealth but don't want the drawdown risk; people who look at the current market and say the market is overvalued but I'm not prepared to go to gold; or cash think this is a good place to hang out.

And we're watching other use cases develop. I think this will be a great product for retirement. I also think this will be a great product for institutions. We have our first really large institutional client who has inherited a portfolio that has very few alternatives in it. They want to be diversified. They want 15% rates of return. Great idea. Why don't we actually add a little leverage to hybrid to get you to 15% and you're fully diversified. So the use cases are metastasizing every day for hybrid. I also think we're going to see hybrid in the equity buckets, equity sleeves of the public mutual funds. Almost every public equity mutual fund has a 15% sleeve for private. They've historically done a lot of it in technology. It will not surprise me to see a portion of the public mutual funds portfolios allocated to these private assets.

And so I look around and I think about the best risk/reward. The best risk/reward anywhere I see as an asset class is hybrid. And it doesn't fit people's portfolios, and I think that's great. That's why it exists. That's why the opportunity exists. And I don't see capital formation happening in scale anytime soon to close this gap. It's going to require fundamental change.

Alex Blostein: Let's turn from some of the strategy and product development to distribution channels and the client type. Starting with global wealth, it's obviously a very large addressable market. We all know the stats. You're very focused in it. A lot of your peers are focused in it. How are you addressing the opportunity set here, both from a product and distribution perspective? What do you think the competitive landscape here is likely to look like 5, 10 years from now?

Marc Rowan: I'll start backwards. I think this is not an opportunity for the entire industry. I think it's an opportunity for a handful of the industry. If you are a one product firm, you are not likely to build an infrastructure necessary to support global wealth. We've gone from a few people to 150 people. We'll be 300 people. Massive technology investment, massive systems investment, total change in the way your business is run and the way you do business. I think this opportunity will gravitate toward the larger firms who are multi-product, who are prepared to make these investments.

Then the question will be what do we do with it? I'll talk a little bit about what I said at Investor Day, which is we look at this opportunity as the size of institutions. This is the size of the market. But like institutions, not every individual is the same. So we think of a pyramid. At the top of that pyramid are family offices. Family offices are professionally advised, capable of bearing risk and reward. My view is we should think of them as institutions, and we should sell them every product that we produce, including products that have binary outcomes because they're capable of bearing binary risk.

I look at the next swath down in that pyramid and I call that high net worth. Think of that as advised high net worth because I actually don't know what the words high net worth mean. But anyone who has a real financial advisor, whether you're at an RIA or a wealth distribution or other form of advised wealth, even if you're a $25 million or a $30 million investor, you are not capable of getting diversified with respect to alternatives. For the most part, we try not to emphasize binary outcome products for that reason. Occasionally we will, at the request of the distribution channel, offer private equity or something that has more of a binary outcome. And there we typically focus on the upper-upper end of their high net worth channel because that's who has the best chance of bearing the risk.

But this market is the first market that is moving from public equity and public debt to private equity and private debt, but not necessarily in full risk-on form. They're great buyers of hybrid. They're great buyers of yield. They're great buyers of, quote, incremental return. It's not clear to me that they are or should be great buyers of binary outcomes.

Then I get to the vast majority of investors who are still wealthy by American standards, but are not professionally advised or not capable of diversification in any real way. I do not think we are going to serve them directly. I think we are going to serve them indirectly through names and products and structures that they already have. Think ETFs. Think interval funds. Think public and private commingled products that give investors the best outcome of risk and reward. We've announced an ETF that combines public and private under one. This will not be the only ETF. There will be lots of them. Every one of these asset classes is capable of disruption.

And I'll just give you the risk-reward package. An investment-grade ETF. How does an investment-grade ETF, anyone's, outperform its index if the index is 100% beta? Well, the secret, an investment-grade ETF is not 100% investment-grade. It has 20% to 30% of something else. That something else is high yield. It's levered loans. It's something other. The decision the manager made with respect to that 20% or 30% is what creates outperformance. And so what they're doing is they're actually taking more risk but measuring themselves against an index that is lower risk and then declaring victory by outperforming.

This is what we do today. We are going to offer a product that is 100% investment grade that will outperform not just the index but the people who are taking risk below investment grade. I think we can do that in almost every category of fixed income because every category of fixed income is ripe for change. I don't think it's going to be easy. But I think if we get this right as an industry, we will actually serve a market that we have yet to even quantify.

I like the notion of being a product provider to established channels. You're watching this take place. Look at what BlackRock is doing. Look at what Franklin is doing. Look at what T. Rowe is doing. Everyone is acknowledging this need for access to private assets in their own way. I think the notion of thinking you're going to buy up enough to serve your own capacity is a fallacy. I think we are not worried about it. We actually think of open architecture. Almost everywhere in the world, open architecture has won previously. If BlackRock wants products from Apollo, we'll sell BlackRock products from Apollo, just like we do with State Street and we will do with Lord Abbett and we will do with others.

I think that's where our market is going. And I'm very optimistic that from a product point of view, our industry will find itself with more demand than supply, and we will become supply-constrained or origination-constrained, which is why we're so focused on origination. Now, a lot has to happen between here and there. Our job is to make that happen. 2025 is a big chunk of making it happen.

Alex Blostein: This convergence between public and private has clearly been very topical. You hit on some of that just in your response now. I wanted to make sure we also touch on another big theme, which is 401(k). You alluded to that at the Investor Day. Clearly, there's been a lot more enthusiasm around that, honestly, since your remarks, but also after the election. What do you think market participants, so plan sponsors, 401(k) sponsors actually need to see from the administration to make this happen?

Marc Rowan: Litigation relief. This industry, there's nothing in the statute that currently prohibits private assets in 401(k)s. What there is is a long history of litigation where anyone who has chosen a product that has higher fees has suffered as a result of this litigation, been forced into settlement. As a result, plan sponsors have been cowed into picking index funds and other types of things, which by the way, has not necessarily been bad for the people who administer them, advise them, because they're the ones who provide the product. It's been bad for the participants.

And so a sensible change of rules, not even legislation, that says you as a fiduciary, which you are, are responsible for producing the best net return, considering the risk, and not just getting the lowest fee would open the gates. It's going to be interesting to see how and where we get this. It's happening in various places in the U.S. where plan sponsors today are redoing their portfolios to get fees to a level. They're getting rid of active equity, and they're replacing it with privates. And as a result, the fee level for the fund is roughly the same, higher fee on privates, lower fee on passive, averaging out. We're seeing wins in this area, but we are not going to see fundamental change to our retirement outcomes without litigation reform or at least advice reform in the U.S.

We are seeing it elsewhere in the world. We're seeing it in the insurance marketplace massively moving toward private. It's not just what we're doing. The whole industry has gotten the joke that they are a good source of long-term illiquid capital, and therefore if they can get paid for that, they should. We're seeing it internationally where markets are opening up.

Alex Blostein: You talked a lot about the convergence just before between public and private. Do you think the solution in the 401(k) markets really expedited will require to partner with a large 401(k) provider already, like a big targeted manager or something like that? Or can the alternative industry get to the appropriate outcome on their own?

Marc Rowan: I think it's going to be partnerships. I think we're -- at least as I see the next few years or next five years for our industry, I think all of us are very protective of culture. The amount of investment, the number of people that we would need to add to do a number of these tasks ourselves would fundamentally change the culture and the makeup of these firms. I know for us, this weighs really heavily on us.

So long as we produce something that is in short supply, excess return per unit of risk, we will get paid for that. If we commoditize what we do and we start trying to grow too fast, we will end up not producing excess return, putting our margins and putting our franchise at risk. And I think that is the kind of fundamental strategy dividing line in our industry right now and pivot point between firms like ours and KKR and others in the marketplace.

We -- and I won't speak for KKR. They do a perfectly lovely job representing themselves. But if you believe that assets are in short supply, you should want, within a range, to make as much money on each asset as possible. You should want a fee, but you should also want a piece of the ups, principal activity. That way, if I want to double my business, I don't have to double the number of assets. Or if I'm just in the fee business and I'm getting a small fee or a larger fee on every asset and I want to double my earnings, I have to find a lot more assets.

I don't want to be on an asset treadmill. I want to grow when we should grow really fast and not grow so fast when we shouldn't grow. I want to make sure that we're the ones thought of as a safe pair of hands in this industry. I think we're at the infancy of retail. I want to make sure we're protective of the brand and not having our BDC offer the most pick, the highest leverage, the highest return, but to be the most sustainable. Investors will understand at this point in time safety. They're not going to understand bad outcomes. Bad outcomes are franchise killers.

Alex Blostein: Right, right. Let's pivot a little bit. I do want to make sure we touch on Athene. Athene is on track to generate record $70 billion of organic flows this year. Earlier in our conversation, you made a point that insurance business and new-to-business is really ripe for innovation and you guys are working through that. As you think about the targets you've set out, run rate of $85 billion on average over the next five years, can you talk a little bit about the makeup of that step up? Do you think it's existing product, new product, expanded distribution? How do you guys see it go from --

Marc Rowan: Look, the business has gotten to $70-ish billion in size. There's more growth there from building out product, building out distribution and just maturation of what we already have. But the next step function change in our business is going to be new product. Every sector of this financial guarantee business -- and that's the business we're in because we essentially make a commitment to meet a rate of return to a retiree -- is ripe for innovation and ripe for dislocation, because fundamentally, these businesses come back to the capacity to generate safe assets that are in excess return. So far, we've put them to work in service of annuities and pensions and GICs and MIGAs, but we can put them into work in the form of stable value wraps. It's kind of the same risk/reward. Guaranteed lifetime income, kind of the same risk/reward.

And then in the product forms themselves, if you're really bored one day, print out an annuity contract, and I dare you to actually try to understand what you've bought. You look at the first insurance policy ever written, Scottish Widows, it's one page. When you die, we pay you this. Why is this so hard? Are we helping or hurting the consumer by delivering them 100 pages that they can't understand as opposed to a product that says, you give us this, we will give you this for life. It doesn't seem so hard.

And so yes, there's innovation that needs to take place. Yes, there's technology and platform that needs to take place. But the trend of simplification, of meeting people's guaranteed lifetime income needs, and of using this notion of financial guarantee in innovative ways is, I think, the kind of North Star of what Athene's trying to do now.

Alex Blostein: Great. Well, lots more to cover, but we're actually out of time.

Marc Rowan: Always.

Alex Blostein: We'll get there next year. Thank you for being here. Always a pleasure. Thanks, Mark.