**May 8, 2020**

# Athene Holding (ATH)

**Q1 Earnings Call**

# Corporate Participants

**James Belardi**
*Chairman, CEO and Chief Investment Officer, Athene Holding*

**William Wheeler**
*President, Athene Holding*

**Martin Klein**
*Chief Financial Officer, Athene Holding*

**Noah Gunn**
*Head of Investor Relations, Athene Holding*

---

# Other Participants

Andrew Kligerman
*Analyst, Credit Suisse*

Erik Bass
*Analyst, Autonomous Research*

Ryan Krueger
*Analyst, KBW*

John Barnidge
*Analyst, Piper Sandler*

Mike Ward
*Analyst, UBS*

Humphrey Lee
*Analyst, Dowling & Partners*

Tom Gallagher
*Analyst, Evercore ISI*

Suneet Kamath
*Analyst, Citigroup*

Alex Scott
*Analyst, Goldman Sachs*

Elyse Greenspan
*Analyst, Wells Fargo*

**ATHENE HOLDING LTD.**
**Q1 2020 Earnings Call**
**Moderator: Noah Gunn, Head of Investor Relations**
**May 8, 2020**
**10:00 AM ET**

**Operator:**
Good morning. My name is Lori, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Athene First Quarter 2020 Earnings Conference Call and Webcast. Thank you. I will now turn the call over to Noah Gunn, Head of Investor Relations. Please go ahead.

**Noah Gunn, Head of Investor Relations:**
Thanks, Lori, and good morning, everyone. Welcome to our first quarter 2020 earnings call. Joining me this morning are Jim Belardi, Chairman and CEO; Bill Wheeler, President; and Marty Klein, our Chief Financial Officer.

As a reminder, this call may include forward-looking statements and projections, which do not guarantee future events or performance.

We do not revise or update such statements to reflect new information, subsequent events or changes in strategy. Please refer to our most recent quarterly and annual reports and other SEC filings for a discussion of the factors that could cause actual results to differ materially from those expressed or implied.

We'll be discussing certain non-GAAP measures on this call, which we believe are relevant in assessing the financial performance of the business. Reconciliations of these non-GAAP measures can be found in our earnings presentation and financial supplement, which are available at ir.athene.com. And with that, I'll now turn the call over to Jim Belardi.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Thanks, Noah, and good morning, everybody. Before discussing our business, I'd like to start by acknowledging that we hope you and your families are healthy and safe during these challenging times.

On behalf of our team, we'd like to extend our deepest thanks to all the health care professionals

and others who are on the front lines of battling the COVID-19 pandemic. We are supporting their tremendous efforts in various ways, including the recent donations of masks to a local Des Moines Hospital near our U.S. headquarters as well as leading a joint effort to purchase much needed ventilators for hospitals in Bermuda.

I would also like to thank our team of more than 1,300 Athene employees for their continued hard work and commitment to the company in the face of extraordinary circumstances. The enduring stability of our business and our mission to provide retirement savings solutions for hundreds of thousands of our customers would not be possible without all of their individual contributions.

As we mentioned during our special investor call in late March, our team at Athene rapidly adjusted to working remotely as the crisis unfolded, preserving crucial business continuity that has allowed us to remain fully operational over the past couple of months. Our team remains focused on executing and serving our 1 million policyholders as well as our business partners at a high standard.

Clearly, the extraordinary circumstances around COVID-19 and related market volatility has disrupted nearly every corner of the market. Many companies are facing the realities of ‘zero revenue’ in the short run. At Athene, our business model is structurally insulated from some of the pressures this crisis is causing. For example, our value-generating savings products provide consumers with principal protection features that have the durability to perform through economic disruptions.

We invest the assets backing policyholder guarantees in almost entirely investment-grade assets and the liabilities we manage are long-term, persistent and low-cost in nature.

By definition, Athene's core spread-based business model is highly stable and predictable. Sources of earnings volatility from several areas that you'd expect would have an impact on our first quarter results should be viewed as transitory.

The reality is that the long-term earnings power of our core business is growing amid the current market volatility and should increase substantially as we deploy the significant amounts of capital at our disposal.

Athene is one of the best capitalized businesses in the life and annuity industry, and we have a growing amount of deployable capital firepower, which provides us with a very high degree of flexibility to be opportunistic for inorganic growth when it matters most.

In the meantime, our organic growth engine continues to originate strong volumes at very profitable returns, increasing market share despite heightened volatility and historically low interest rates. Importantly, we continue to expect that any potential credit losses resulting from this recessionary environment will be manageable given our strong excess capital position and superior financial flexibility.

I wanted to take a moment to comment on the market conditions heading into the March 31 quarter end. Since our last earnings call on February 18 until March 23, we saw equity market declines of more than 30%, we saw a four-fold increase in volatility and we saw credit spreads blow out to levels not seen in recent years.

The week leading into quarter end represented a bottom ticking of today's economic environment and while that impacted marks on a temporary basis, given our low-cost stable funding, our core earnings model nevertheless outperformed during those two weeks of volatility.

We view this as a testament to the resiliency of Athene's business model. To that end, we wanted to provide you with a clear illustration of how to think about the core earnings power of Athene's model. When markets are volatile, the primary impact on our operating earnings will be a marking to market of our alternatives portfolio.

However, so long as the underlying positions are not impaired, the mark-to-market is most appropriately viewed as a temporary phenomenon rather than an indication of permanent impairment. I have been through our alternatives portfolio in detail, and believe it is in fundamentally sound shape.

In fact, we have already seen a very meaningful rebound in alternative asset values following quarter end, very consistent with what we're seeing happening more broadly across the investment portfolio for reinsured assets and the unrealized gain/loss position for the entire portfolio. Marty will comment more about that later.

Normalizing for the impact of volatile equity markets on alternatives, our other liability costs and our tax rate, our business generated an attractive 18.5% return in the first quarter in our Retirement Services segment.

At this time, I'm going to hand the call over to Bill, and then I'll be back to discuss other important topics surrounding our performance and how we're positioning for offense in the current environment. Bill?

**Bill Wheeler, President:**
Thanks, Jim. As we communicated on our March 25th shareholder call, I'm pleased to report that our business operations continue to function extraordinarily well under the circumstances. Our efforts to source new liabilities through our organic channels were quite successful in the first quarter. We generated new deposits of nearly $4 billion, resulting in 8% sequential growth, driven by strong activity across all channels.

In the face of sharp macroeconomic disruption in the latter part of the quarter, as well as a historically low interest rate environment, these results demonstrate the strength and resilience of our multichannel distribution model. Importantly, we maintained our underwriting discipline by continuing to price new business to our targeted returns.

On an aggregate basis, returns on organic deposits in the first quarter came in at a high-teens level, above our mid-teens pricing targets. The primary driver behind this is our ability to invest in a wider spread environment against attractive funding costs.

Because we're well capitalized and maintain a consistent and growing presence in the marketplace, Athene is serving as a source of strength for policyholders and reinsurance partners. Our retail annuity and flow reinsurance businesses combined to generate more than $2 billion of deposits in the quarter, but it's worth highlighting that we observed more than half of these sales in March alone amid recent peaks and volatility.

This confirms two of our long-standing assertions when equity markets exhibit choppiness and volatility spikes. First, the principal protection features in our core products become increasingly valuable to consumers; and second, competitors who aren't as well capitalized or who've been mispricing product in the pursuit of market share gains will likely be forced to pull back meaningfully.

When these market conditions exist, it plays to our strengths. Importantly, consumer lapse and surrender behavior in our deferred annuity book continues to remain consistent with our normal course expectations. If you look at the runoff figure for the first quarter, it is identical to the year-ago quarter.

So, in summary, we think our combined production in retail and flow reinsurance can increase from first quarter levels and will likely support our organic growth in the near- to medium-term.

Turning to the institutional business, we generated nearly $2 billion of deposits across our pension risk transfer and funding agreement channels.

In PRT, we continue to solidify our position as a market leader while generating attractive returns across a range of transaction types and sizes. Following the $1 billion deal with Armstrong World Industries completed in February, we closed a $230 million transaction with a large packaging company in April. While we remain active in bidding for transactions that come to market and believe we will win our fair share, we are observing that the pipeline of industry activity is slowing amid the market downdraft.

As the funded status of their plans decline, sponsors are less likely to transact, which leads us to believe that industry transaction volumes in the U.S. this year may be approximately half of what they were in 2019.

That said, given the situation is fluid and plan sponsors could improve their funded status with attractive financing available in today's market, we believe that some part of the market will forge ahead to find a risk transfer solution.

In the U.K. market, where we recently made inroads, we are continuing to make progress and expect that we could see another transaction sometime later this year. Our read of the U.K. market is that it may prove more resilient in terms of volumes in the U.S. since U.K. plans are generally better hedged with respect to interest rates and planned fiduciaries help drive decision making.

In terms of funding agreements, we completed approximately $800 million of activity in the first quarter, which is a very strong result considering we issued $1.4 billion in all of 2019.

While we were optimistic about funding agreement backed note issuances during the first half of this year, the sharp decline in markets and associated spread widening has made it less attractive to issue.

If the rebound we observed in April continues and we experience further recovery in spread tightening, we will be ready to return. More broadly, we see opportunities to remain active on the Federal Home Loan Bank side as well as explore opportunities with other institutions.

While channel-by-channel dynamics will clearly vary this year amid the market dislocation, we anticipate our aggregate organic growth activity will continue to be strong.

Accordingly, we maintain our prior expectation that organic volumes in 2020 will be consistent with 2019 activity, excluding the outsized component of last year's PRT volume of approximately $15 billion to $16 billion.

On the inorganic side, we continue to see significant opportunity to deploy our excess capital at attractive returns, and we are actively evaluating opportunities. Of course, we are unable to control the speed of M&A processes and the willingness of counterparties to transact, so it's difficult to determine the likelihood and timing of transactions that might be consummated. We are seeing a range of potential targets in the marketplace.

And for various reasons, the market disruption may be having more or less of an impact on their ability or desire to transact. We are seeing some counterparties pull back and wait for economic clarity. We are seeing other counterparties remain engaged despite the recent volatility because their desired outcome may be more strategic or long-term accretive, and we are identifying some potential counterparties who may want to transact as a result of the crisis.

With all these potential types of opportunities considered, we remain optimistic on the current pipeline. We believe we are well-positioned as a preferred solutions provider, possessing deep expertise, swift execution capabilities and significant deployable capital through our unique partnership in ACRA.

Now I'd like to turn the call over to Marty, who will discuss our financial results.

**Marty Klein, Chief Financial Officer:**
Thanks, Bill, and good morning, everybody. One of the key messages we'd like to reinforce to you today is that Athene has a very resilient business model with long-term stability and firepower to support our existing business and drive additional growth.

We add value on the asset side of our business by generating alpha in a book of well-diversified fixed income-oriented assets that we match against long-term predictable liabilities, which are valued using prudent assumptions. We support this activity with our significant capital, which we aim to allocate effectively to drive long-term shareholder value.

Now let's walk through our first quarter results. To assist in understanding, we've provided additional detail in our earnings presentation this quarter. After cutting through the noise created by market-related impacts in the quarter, you'll see that the core spread-based insurance business is performing solidly within a reasonable range of expectations.

The biggest variance versus expectations was driven by alternatives, many of which were marked as of March 31 through the P&L, as Jim mentioned, essentially bottom ticking the market environment.

Starting at the top of the income statement, our fixed income NIERs are very stable within a relatively narrow band. Quarter-over-quarter impacts were driven by known factors, including a decline in short-term interest rates as well as cash drag from the additional liquidity we've chosen to hold in the current environment.

When evaluating the outlook for our fixed income NIER, we consider several drivers, including, but not limited, to implied forward interest rates, potential drag from holding additional liquidity, and upside from more attractive on-the-margin investing spreads.

Given the low rate environment, along with the high levels of liquidity we're holding, we estimate that fixed income NIER, based on today's forward curve, will be approximately 4% for the full year 2020.

Turning to alternatives. As Jim described earlier, we believe our marks in the first quarter are temporary and do not reflect permanent impairment of those assets, and economic values have rebounded since March 31.

That said, volatility from the first quarter environment will also be reflected in the second quarter due to the lagged timing of marks on approximately 60% of our portfolio. Accordingly, if markets hold their current level, our best estimate is that the alternatives portfolio will be down 5% to 7% unannualized in the second quarter, principally driven by a 10% to 12% headwind on the lagged portion.

We currently expect that the net result of quarterly fluctuations in the first half of the year, including more normalized double-digit returns in the back half, suggests that our alternative NIER may be close to breakeven for the full year of 2020.

Moving next to cost of crediting. While our reported percentage was mostly flat to last quarter, we view this as a stable and downward trending component of cost of funds. Cost of crediting on deferred annuities declined by 4 basis points from the prior quarter, driven by actions taken reflecting the low rate environment.

This was offset by a normalizing increase in cost of crediting on institutional products, which you'll recall benefited from a non-recurring positive adjustment on our PRT block in the fourth quarter. Assuming implied forward interest rates, our best estimate is that total crediting costs will continue to drift downward by approximately 5 basis points by the end of the year.

For other liability costs, which represent the other component of cost of funds for our deferred annuities, we observed quarterly fluctuations that can occur. Significant short-term market movements deviating from our long-term assumptions of annual equity value increases of about 6% annually can prompt more noticeable adjustments, which tend to balance out over time.

For example, when the S&P 500 jumped over 8% in the fourth quarter, we saw lower-than-average other liability costs. And with sharp market declines this quarter, other liability costs were higher than normal. On a normalized basis, we continue to expect the baseline run rate for other liability costs to be approximately 1% of average invested assets.

Shifting from product-related costs to our platform costs. G&A expenses are another highly stable line item with a downward trend expected over time. As we grow, our G&A dollars grow, but more slowly, because of the scalable nature of our platform. The ratio of G&A dollars to our assets has been steadily declining over time. When expressed as a ratio of average invested assets, we expect operating expenses will remain relatively stable around 28 basis points for the remainder of the year.

Shifting to taxes. As a reminder, our tax rate is a function of how much income we generate in our Bermuda subsidiaries versus our onshore subsidiaries. During the first quarter, we had a higher percentage of our profits in our onshore subsidiaries due to the lower profitability we had in the quarter, which in turn drove a higher-than-normal tax rate of approximately 14% despite less dollars of actual tax being accrued.

Notably, if we'd experienced more normal levels of operating earnings, our tax rate would have been in line with our prior guidance of 9% to 10%. Since our mix of business and our mix of income are being skewed by the market volatility and, in particular, the impact on alternatives,

we expect our full year tax rate to be temporarily elevated around the mid-to-high teens level and revert back to roughly 10% or lower as the environment normalizes.

When we step back and put all of these pieces together, our normalized earnings power on the core business heading into the pandemic was trending above the record $1.3 billion of operating income we reported in 2019, reflecting a return of assets of approximately 110 to 120 basis points and a mid-to-high teens return on equity.

This market environment has not changed our longer-term expectations for this business. In fact, we may be able to add further value from attractive inorganic opportunities and asset purchases in this environment as well as from continued steady organic growth at our target returns or better, as we saw this quarter.

As you know, we closed our previously announced transaction with our strategic partner, Apollo, at the end of February. We now own a 7% equity interest in Apollo Operating Group entities, or AOG.

Notwithstanding the volatility we experienced in March, this is a strategic asset that provided us with approximately $1 billion of capital on the eve of the market turmoil, so it was well timed. Our equity interest in AOG is mark-to-market and the after-tax impact of any change in fair value is accounted for in a single line item within our operating results.

The price of Apollo's publicly traded common stock provides the basis for evaluating our investment in the AOG units. From the close of the transaction through March 31, Apollo share price declined approximately $9 per share. In addition, a liquidity discount of 13% was applied given the heightened volatility.

Net of a tax benefit amounting to approximately 20%, the mark-to-market impact of our stake was $239 million in the quarter or $1.36 per share. Through yesterday, Apollo share price has rebounded entirely, implying a recapture of approximately $195 million or $1 per share, net of a similar liquidity discount and tax considerations.

Before handing the call to Jim, I'd like to provide some context on our non-operating results, given the sizable decline in the quarter. The largest driver within non-operating results in the quarter is the investment gains and losses line item.

Generally speaking, for insurance companies, fixed income portfolios impact earnings on a book

value basis with changes in value running through AOCI, but not to the income statement. However, for business we have originated through reinsurance, even though the economics are the same as direct written business, changes in the value of fixed income securities are reflected in net income.

While required under GAAP reporting, this treatment is both illogical and inconsistent with the treatment for directly written business. And further, it has zero impact on the earnings power of the business or our capital position. This impacts roughly $25 billion of assets that we've reinsured through the previously announced Voya and Lincoln transactions as well as from other counterparties in our flow reinsurance channel.

During the first quarter, we saw a sizable mark-to-market decrease in the value of the assets we reinsure, consistent with our overall portfolio. This drove a $1.3 billion mark-to-market decline, which is reflected in net income below the operating income line. Post quarter end, we've seen this number rebound significantly as it has for our available-for-sale securities portfolio.

For the month of April, we estimate the change in the fair value of reinsurance assets is an increase of approximately $600 million, and those assets are now in an unrealized gain position of almost $100 million. We reflect these marks in net income as a non-operating item, and we exclude these marks from adjusted book value as we do for AOCI.

The fair value of our available-for-sale securities where marks are reflected in AOCI has also rebounded from March 31 levels, increasing by approximately $2.6 billion at the end of April to an unrealized gain position of about $400 million.

We've also adopted this quarter the new GAAP standard CECL, which requires setting up a provision for future potential credit losses, not just those incurred. Implementing this standard caused our provision for credit losses to increase, but note that our actual experience OTTI this quarter was consistent with our past experience. I'll now turn the call back over to Jim.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes. Thanks, Marty. We have 3 more topics I'd like to touch on before we take your questions, including our alternatives portfolio; a reminder of our stress scenarios; and finally, capital, including our preparations for offense.

As you know, approximately 5% of our $120 billion investment portfolio is in credit-oriented cash flowing alternative investments, an allocation which is in line with the industry average.

While our weighting in alternatives may be similar to others, we employ a differentiated strategy that has a defensive orientation and is less prone to binary outcomes, possesses some element of downside protection and emphasizes investments in operating companies versus purely third-party managed co-mingled funds.

During the first quarter, our Alts NIER was modestly negative. However, this does not reflect the true economics of what we saw since a significant portion of our Alts portfolio is marked on a lag basis, as Marty described.

We estimate that if we were to mark all our Alts on a real-time basis in the first quarter, the markdown would have been about 10% on an unannualized basis, which compares favorably to the performance of benchmark indicators, such as equity markets being down 20% and high-yield bonds down 9%.

Therefore, our alternative investments performed very much in line with fixed income indices and vastly outperformed equity indices in the period, which is a testament to our strategy and consistent with our expectations.

Fundamentally, we believe the long-term outlook for our alternative portfolio is excellent, and our larger positions drive that view. At AmeriHome, the first quarter was the most profitable quarter in their history as they benefited from heightened refinance activity and origination volumes.

MidCap, our middle market lender, is currently benefiting from its focus on senior secured positions in the capital structure, and from having built ample liquidity to weather the current downturn.

PK AirFinance, our aircraft lessor position, benefits from an attractive detach point in the mid-50s LTV to metal value of the underlying aircraft and ample liquidity to sustain the current economy.

Our triple-net lease portfolio within our real estate allocation is defensively positioned with tenant concentration connected to household staples, such as grocery and pharmacy. And lastly, our portfolio of strategic stakes in insurance companies continues to hold up well.

Catalina, a P&C reinsurer, has seen low instances of permanent loss and the underlying business model remains intact and unaffected by COVID thus far. Venerable, the variable annuity

company, expects no degradation in book value, a testament to the hedging strategy employed by that team.

And Athora, which is viewed by some as an earlier stage Athene in Continental Europe, closed their transformative acquisition of VIVAT in early April, raised more capital to pursue additional growth, and has actually posted a significant mark-to-market solvency gain in the current environment.

In summary, we remain very confident in the strength of our Alts portfolio and expect these mark-to-market fluctuations to be temporary rather than permanent impairments.

This brings us to the big question, which many of you are likely wondering, where will markets and the economy go from here?

As it relates to our business, we are intently focused on this question and probably most acutely when it comes to risk. In our presentation materials, we included two important summary slides that we shared with you in late March which summarize the stress inputs we apply to our portfolio and the potential OTTI that could emerge over time. We have a couple of important caveats - these OTTI impacts do not assume potential offset from intervening management actions and they do not factor in the offset from earnings through the recognition period, both of which will be meaningful.

While we aren't any better than you at predicting the ultimate severity and length of the current dislocation, we believe our various assumptions in the stress are relevant through the lens of past economic stress.

Our analysis illustrates that potential OTTI without mitigating factors would total $1 billion net of offsets in a baseline recession case and $2 billion net of offsets in a deep recession case, implying cumulative losses of 1% to 2% of net invested assets.

I'd like to reiterate that we will actively manage our way through this challenging environment, and there is no doubt we will see some level of OTTI in a recessionary environment, as will all insurance companies.

However, our team is confident that the level of OTTI at Athene will be within our risk appetite. And you could be comforted that we have been extremely transparent around this topic and provided the same information to our Board, regulators and rating agencies.

To understand why we are confident in our ability to weather the current environment, it's important to understand that we manage our business with significant excess capital and low leverage.

Today, we benefit from A ratings and over $12 billion of statutory capital. Our ratio of statutory capital to reserves is more than 30% greater than the industry average. Included within our statutory capital is $2.7 billion of excess equity capital, which represents cushion above and beyond our targeted 370% RBC ratio.

We have approximately $7.5 billion of deployable capital, which includes the $2.7 billion of excess equity capital I just mentioned, plus $2.3 billion of unused debt capacity and over $2.4 billion of undrawn third-party capital in our strategic sidecar vehicle, ACRA. In addition, we have approximately $900 million of preferred equity capacity.

We are significantly under-levered with a debt-to-adjusted capital ratio of 12%, which is approximately half the level of higher-rated A+ and AA- peers. Our untapped debt capacity of $2.3 billion, if utilized, would only increase our leverage to the industry average level of approximately 25%.

Beyond our historical practice of managing the business conservatively, one of the primary reasons Athene has such a strong capital position today is because we have been actively preparing for dislocation.

Between forming an innovative sidecar solution, completing two cost-effective preferred offerings, executing the strategic transaction with Apollo and our recent parent debt deal, in total, we opportunistically raised approximately $6 billion of capital in less than 18 months.

We also feel very good about our liquidity position. We brought in record cash through organic growth last year and the strength continued in the first quarter. Outflows from normal course runoff are stable.

We ended the quarter with more than $5 billion of cash, which provides the foundation for nearly $7 billion of total liquidity at the end of April. Nevertheless, given the importance of liquidity to any business, we are proactively looking to supplement our amount of immediately available liquidity, targeting $10 billion, which we are on track to hit in the next two months.

Our significant pool of liquidity is supplemented further by a $33 billion portfolio of liquid public corporates. Hoarding capital, building liquidity and re-underwriting our investment portfolio are examples of intentional maneuvers on our part to position ourselves defensively, while also preparing for offense.

As Bill touched on earlier, our first steps on offense will be to capture the healthy, safe returns that are available in today's dislocated market. Our strong on-the-margin inflows have been invested in some of these dislocated assets, and we anticipate more of this in the weeks and months to come.

With very attractive funding costs and safe assets offering wider yields, our recent on-the-margin net investment spread is approximately 35% better than it was on average in the first quarter.

As you know, we founded a company in the wake of market turmoil, and we took advantage of acquisition opportunities in the period that followed the 2008, 2009 financial crisis. Armed with the significant capital resources I just described, including almost $7.5 billion of deployable capital, we have the ability to add nearly $90 billion of growth to our existing platform of nearly $130 billion of growth invested assets. None of this upside, none, is currently reflected in our stock price.

While the opportunities to create value will change month-by-month or even week-by-week in today's market, our guiding principle will remain the same: Be disciplined stewards of capital focusing on appropriate returns and be as flexible as possible to respond to the shifting market conditions.

Given that we have generated book value growth of 16% annually, we believe this strategy has served us and our shareholders very well. Thank you. And I'd now like to turn the call over to the operator to begin the Q&A portion of today's call.

**Operator:**
Your first question comes from the line of Erik Bass of Autonomous Research.

**Erik Bass, Autonomous Research:**
Can you talk about your views on the real estate market and your exposures and risks across the portfolio, particularly in the alternatives and on the commercial mortgage loans?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Sure. Erik, look, we have a $16 billion commercial mortgage loan portfolio. The average loan-to-value on that portfolio was 60%. Three-fourths of that portfolio is in pretty predictable residential, office, industrial, mixed-use, health care and self-storage space.

So it's been a very high performing portfolio, stable. We've acquired through acquisitions, as I mentioned, low loan-to-value. As far as the current comment, in April, expenses were paid and collections were received on 99.7% of the portfolio.

And we expect in May, based on what we see so far, that another 99% of the monthly payments due will be collected then. So all in all, we think in a very good position and very good shape.

The two areas of particular concern are hospitality and retail. And in hospitality, we have about 10% of the portfolio there. The loan-to-value there is a low 54%. And in retail, we have about 16% of the portfolio there and the loan-to-value there is even lower at 53%. If we were going to see impairments, there would probably be in those two areas, but I think they're well covered in the allocation and the setup that we've already had through CECL.

**Operator:**
Our next question comes from the line of Tom Gallagher of Evercore.

**Tom Gallagher, Evercore ISI:**
Jim, so far, we've heard most of the life insurers say they think the majority of credit will be ratings migration and not impairments. I mean, in my view, that seems pretty optimistic given the level of uncertainty here. Curious what you're thinking on that is at a high level?

And I guess, just also to focus on your stress loss scenarios. To the earlier question, I think a lot of people are focused on commercial mortgage loans, I think you addressed that, but that end, CLOs have gotten a lot of attention, but that's a very small piece of your expected stress losses.

And I guess, sorry for rambling, but the final piece to this, when I hear you say you're improving liquidity to $10 billion, I think previously you were talking about $5 billion, that sounds certainly more cautious on credit. But anyway, any thoughts you have on those topics would be helpful.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes. Maybe I'll go on just random order, Tom. Thanks for the question. Look, our building of liquidity, I think we may have used the $10 billion number as well on the March 25th

presentation that we were building to, and that's still the case. That's just part of playing defense first, but we're playing offense now too, which we can talk about a little bit more.

Regarding impairments versus downgrades, look I think we would agree that that's been the market sentiment from insurance companies. We have more risk to downgrades than we do to impairments and any impairments that will come, I think whether there's downgrades and causes more capital to be allocated and/or permanent impairments, I think, we're well protected with our capital position.

We've been aggressive in allocating the potential for losses in CECL. And as we speak, our OTTI continues to be very low, as Marty said. So look, we've prepared for this dislocation for a while, we think we know how to handle this. We were in the middle of it when we started our company 12 years ago, you can never be perfectly prepared, but I think we're in a really good position now and we're ready to play offense now. So while we play defense, we think we're covered in general, our allocations, our liquidity and our capital position, but we're ready to play offense now.

**Marty Klein, Chief Financial Officer:**
Jim, it's Marty. I would just add because you referenced CECL a couple of times and as, I think, folks know CECL is a new accounting standard, interesting time to implement a new accounting standard on credit losses.

But listen, as Jim said in his remarks, we don't really know it better than anybody else is going to happen to the economy, but it seems very clear to us that we're in a recession, 15% unemployment in the month of April or close to it. So we've provided for that in our financials through the CECL reserves.

So at this point, in our first quarter, we have fully baked in future credit losses, future impairments of over $500 million. That is reflected in our net income results and our GAAP equity. That's pretty much in line with the baseline recession scenario that our risk guys had. That overall losses that Jim's quoted is not just fixed income and loans, it's also alternatives.

So if you look at that stress scenario, that calls for about $600 million in impairments, and we basically booked close to that in our GAAP financials as we speak. So we'll have to see what happens. Obviously, if the environment improves, we'll have good guys that come through the quarter.

If we are, in fact, in a recession as we think we are and we have impairments, we've already provided for about over $500 million of that in our financials. I just want to make sure folks understand that because CECL is a new thing for folks and companies aren't talking about it a whole lot on their calls.

**Operator:**
Our next question comes from the line of Ryan Krueger of KBW.

**Ryan Krueger, KBW:**
On the 4% fixed income yield expected for 2020, can you say how much of a drag there is from the excess liquidity you're holding? And then also just on the clarification on the 5bps decline in cost of crediting, is that relative to 2019 or relative to the first quarter?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Go ahead, Marty.

**Marty Klein, Chief Financial Officer:**
Thanks, Jim. Sure, Ryan. I hope you're doing well. So on fixed income, we were at 420bps for this quarter. We expect we'll be about 4% for the full year. Obviously, it's a bit of a fluid environment, but we think that's pretty predictable.

And there's really two drivers, primarily. One is the decrease in interest rates, which we're expecting to kind of remain at these levels, looking at the forward curve. And really also sitting on a fair amount of cash. We're assuming we're going to sit on probably $5 billion or so of cash, probably more than that as the year progresses.

So I think that overall, 4% for the full year is really kind of almost equally split between just lower rates, which will impact our floating rate income and additional cash drag.

The cash drag is obviously in our control. If things get a whole lot better, and we might find opportunities to invest, maybe that will go down. But our view right now is that we'll hold a lot of liquidity throughout the full year, and that's how we get to the 4% overall.

And then on the cost of crediting question, that 5 basis point decline over the year is really from the first quarter level.

**Operator:**
Your next question comes from the line of John Barnidge of Piper Sandler.

**John Barnidge, Piper Sandler:**
Many companies have disclosed their mortality morbidity sensitivity from 100,000 U.S. deaths. Can you provide your sensitivity on the longevity risk in PRT because I believe it would be a benefit.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Bill?

**Bill Wheeler, President:**
Yes. It is probably going to be a benefit but I don't think it's going to be very material. And I think time will tell, we've been sort of debating this internally about how much are we going to see in terms of improved longevity, and I just don't know how much to put up against it yet.

Obviously, there are more movements in mortality, but will they really affect our in-force very much? I think we're more skeptical.

**Operator:**
Your next question comes from the line of Andrew Kligerman of Credit Suisse.

**Andrew Kligerman, Credit Suisse:**
Jim, you've talked about the ability to play offense and then you've also mentioned wanting to hold about $10 billion of liquidity and then you did a terrific $319 million of share repurchases in the first quarter. So I'm wondering what the time line and appetite is for share repurchases as your stock trades at roughly 50% of book going forward for the year?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Andrew, thanks for the question. Yes, look, the returns you get from buying back your shares at these prices is extraordinary and we recognize that, and we have over $300 million of available authorized capacity to do additional stock buybacks. But we have done a material amount in the past, and we continue to evaluate that going forward.

But look, it's early innings to maybe mid-innings in this whole global crisis and pandemic and we're not one to rush to do anything that's essentially outside our business model. But look, we recognize the compelling value in our shares. We'll factor that into uses of capital as we always

do and evaluate it on a consistent basis. But we are still, we think, early to mid innings in the crisis here, and we keep that in mind.

**Operator:**
Your next question comes from the line of Alex Scott of Goldman Sachs.

**Alex Scott, Goldman Sachs:**
The first question I had was on the commercial mortgage loans. I think some of the companies have given disclosure around forbearance and how much has been requested and granted through April. So I was just interested if you could provide any clarity there?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes, Alex, I mentioned before, maybe it doesn't answer your question particularly. But in April, 99.7% of expected payments were received and in the commercial mortgage portfolio and right now, May, we expect another 99% to be received. So haven't seen much fall go through our portfolio right now, people are paying. So entities are paying right now.

**Operator:**
Your next question comes from the line of Elyse Greenspan of Wells Fargo.

**Elyse Greenspan, Wells Fargo:**
My question, in your prepared remarks, you guys pointed to total deposits kind of being in line with last year's level ex of that outsized PRT volume, which is in line with the commentary you guys gave us last quarter. But it sounds like there's some headwinds on PRT and the funding back notes.

So I'm just trying to get a sense of the pressures and the pulls of why that has changed and is that maybe the deposits in the retail channel are a bit better than what you thought? If you could just kind of help me triangulate that a little bit better.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes, Bill?

**Bill Wheeler, President:**
Yes. Elyse, our run rate in retail is going to be higher than what we did in the first quarter. I mean, as much as you can predict, if you just look at March and April, we're clearly clicking on a pretty good level.

I would guess, at the end of the day, even if cautiously, we would certainly be at plan, maybe somewhat above plan. I'm curious to see how well we can do when financial advisers can actually go visit their clients again face-to-face. And so I just find our level of activity pretty remarkable given the environment.

And so retail is going to be good. Flow is clearly better. And part of the reason flow is better is because some of the business we're reinsuring is off electronic platforms and so are virtual purchases, if you will. So that's part of the reason we're so strong.

Obviously, the rates we're providing to our counterparties are also attractive. So flow is clearly going to be better, it’s just a matter of how much better.

We were fairly conscious in the pension business in terms of what we forecasted for the year and unfortunately, that's going to turn out to be, I think, pretty accurate. So even though I'm kind of pessimistic on pension volumes in the U.S. at least, I do think that our activity will be roughly consistent with our plan.

And then with regard to funding agreements, yes, the FABN market is clearly weaker. But we're going to do a lot of issuance with the Federal Home Loan Bank. Those deals are always very attractive for us and so that might make up for it.

And even though volumes in overall for FABNs or funding agreement related transactions might be slightly lower, the margins are probably going to be better. So that's a little bit why we're staying consistent with our previous forecast of $15 billion to $16 billion. I kind of think there's more upside there than downside.

**Operator:**
Your next question comes from the line of Humphrey Lee of Dowling & Partners.

**Humphrey Lee, Dowling & Partners:**
Just looking at your total deposits for the quarter, it doesn't look like you transferred some of the PRT to ACRA this time around. I was just wondering if you can provide some color on the rationale?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Bill?

**Bill Wheeler, President:**
Yes, sure, Humphrey. It's a two-step process. Even though we have an agreement to give ACRA a first look on PRT deals, they don't always take them - there were a couple they didn't take last year either. They tend not to be deals that I'd say are low risk.

Total retiree deals, very straightforward plan design. So the risk levels are low, and therefore, our pricing is consistent with that. ACRA doesn't reflect that so much. They're kind of just looking at their overall returns, net of the fees that get paid. So occasionally, they find a PRT deal that they think doesn't quite meet their criteria, but we're still comfortable with it.

And that was clearly the case with the Armstrong deal that we did in the first quarter, very straightforward transaction. That won't always be the case, though. We tend to do better in pension deals where there's a little more complexity and frankly we generally get better returns there and so I think ACRA will probably take more PRT deals going forward.

**Operator:**
Your next comes from the line of Brian Meredith of UBS.

**Mike Ward, UBS:**
Thanks guys. This is Mike Ward on for Brian. I just had a question on CLOs. So my understanding is that a portion of the CCC loans in the average CLO is now almost 12%, which is above the threshold that triggers over collateralization tests.

Just curious if you could comment on how your CLOs might be performing because it seems like the values have been coming down, not just for you guys, but more so than corporate bonds and I think that's kind of reflecting the idea that the loans underneath them are often from smaller private equity sponsored businesses and not really supported by Fed actions. So just kind of curious your thoughts on how CLOs are doing.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes. Thanks, Mike. CLOs are not mark-to-market through our income statement like Alternatives are, but obviously, we do mark them just in general for diligence, et cetera. And yes, when we are in the CLO space, we know there's going to be volatility in marks.

The key is, is there going to be permanent impairments. And really, we don't see permanent impairments in our CLO portfolio. We're very senior in the capital structure, have a large degree of subordination below us.

We do expect to see some downgrades, and we have, and we'll see more of the underlying collateral. So again, consistent with my previous comments, for our overall portfolio, we'll see some impairments, but more of the capital requirement, we think, for us is going to come from downgrades, which we're prepared to handle.

And that is the case as well with CLOs. Don't really see much of any permanent impairment in our CLO portfolio. It is just in general, high quality. We have almost nothing in investment grade and non-investment grade. It's all in general, high-quality for the whole portfolio, highly rated.

But the underlying collateral is going to suffer some downgrades and then the structures could be downgraded at some point as well and that's what I would say. It's more of a downgrade risk than a permanent impairment risk.

**Operator:**
Your next question comes from the line of Suneet Kamath of Citi.

**Suneet Kamath, Citigroup:**
Just looking at your supplement, it looks like MidCap was marked down about 7% in the quarter. So curious what was going on there?

And then related to PK AirFinance, we did notice another Air lease company signaled that a larger percentage of their lessees were deferring payments, at least in part. So just curious if you're seeing something similar in terms of PK AirFinance?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes. So for MidCap, it was marked down, there were some loan losses, expectation plus comparables were using higher discount rate to discount cash flows.

And MidCap actually raised some equity here as we speak as an insurance policy, given the range of possible economic outcomes. It also generates liquidity to help with unprecedented volatility, but MidCap is doing great.

And by the way, Athene participated in that most recent equity offering by MidCap and we thought it was probably the best risk return trade-off in the alternative space we see. So that's evidence of MidCap playing defense before they play more offense.

But we think as we speak, MidCap is earning at a double-digit rate right now and that's after the relatively small write-down we took in the first quarter. So we think it's very healthy, and it's a big part of our business.

Then on PK, yes, that's performing very well. Even under the severely adverse stress scenario, we don't see any of the investment-grade tranches which is most of what we did taking a write-down. And we also have a ballpark $300 million alternative in that PK AirFinance portfolio. Even in a severely adverse stress test scenario we run, we still see a positive yield of just under 9% for the Alt under that very difficult scenario.

I mean one of the keys there is this PK AirFinance, we don't own the planes. We are a lender to the lessors, if you will.

So we have two layers of defense before we would get hit, both the airline has to default as well as the lessor has to walk away. And with the attachment point and essentially LTV in the mid-50s, we have a lot of cushion and support below us. So, feel really good about PK and it's performing as we would expect it to.

**Marty Klein, Chief Financial Officer:**
Jim, I would just add on MidCap that they had the same phenomenon that we did, where with this new CECL guidance you have to provide a provision for future credit losses. So that was really the big driver for MidCap's decline. It's just that provision for future losses. So it's kind of that accounting change, if you will.

**Operator:**
Your next question comes from the line of Tom Gallagher of Evercore.

**Tom Gallagher, Evercore ISI:**
I know you had previously indicated that the M&A transactions you're considering are on the large side. Are you still thinking that way?

And how are you thinking about balancing out having all this dry powder? And then if you do deploy substantial capital into a deal, potentially, your capital becomes more vulnerable, just in case credit really does deteriorate more substantially.

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
No problem, Tom, as far as second question. Go ahead, Bill. Just kidding.

**Bill Wheeler, President:**
Tom, look, yes, we are focused on large deals. I will say, even given what's sort of in our line of sight, the capital that we would deploy is still very comfortably in our wheelhouse.

Remember, two-thirds of the capital that we are putting forward on a transaction actually will come from outside ACRA investors. And so in terms of depleting our cushion to do other transactions, it won't be as impactful.

But the reality is we're holding so much capital now that it would be damn hard to put it all into a single deal. But the deal environment, especially for big transactions, we think is very attractive, and the outlook is good.

**Operator:**
Your next question comes from the line of Andrew Kligerman of Credit Suisse.

**Andrew Kligerman, Credit Suisse:**
I just want to finish my first question. Jim, it sounded to me like you were being cautious in that, you're not turning off the share repurchases, that you're monitoring the situation and that you very well could do buybacks.

It just seems like you're being cautious in monitoring at the moment, but we could potentially see something in the second quarter. Is that the proper read?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes, I think that's right. Potentially, we haven't committed to do any more as we speak. I think we turned it off for the right reasons in the crisis, and we're still in the crisis.

But that's right, Andrew. We're trying to be flexible on how we deploy capital and be prudent stewards of our capital. We do have a lot of it, so it gives us a lot of options. But yes, absolutely, that's still under consideration.

**Operator:**
Your final question today will come from the line of Alex Scott of Goldman Sachs.

**Alex Scott, Goldman Sachs:**
Just had one more on the credit side. I think when we do our various screens of your portfolio, one of the things that stands out is just the allocation to private debt versus public debt. And I'd

just be interested to hear any commentary on how that's performing?

If there's anything unique about the way the pandemic is impacting small businesses and your exposure there as a result of having more private debt. How you'd expect that to play out? And to the extent that that’s all factored into the OTTI disclosure that you've given us?

**Jim Belardi, Chairman, CEO and Chief Investment Officer:**
Yes. So when you say private debt, I mean, our corporate private category is about 17% of our portfolio. It's very well performing, heavily covenanted allocation for us, not a liquid portion, obviously, because it's private, but it's performing well.

Any impairments that come from there are manageable and are allowed for or provisioned for essentially, from what we can tell now. That’s how I'd answer it. We've gone through a bottoms-up line item by line item review with Apollo and re-reviews on each segment of this portfolio and every portfolio we have and feel very good about it.

And like I said, the allowances that we've set up, we think, more than cover what we expect to happen, and we have plenty of capital to cover it. So yes, the corporate private side, I don't think is an outsized portfolio, and it's very predictable and proper coverages so in general we feel good about it.

**Operator:**
Thank you. I'll now return the floor back over to Noah Gunn, Head of Investor Relations for any additional or closing remarks.

**Noah Gunn, Head of Investor Relations:**
Great. Thanks, Lori, and thanks, everyone else, for joining us this morning and for your interest in Athene. If you have any follow-up questions related to our results or anything discussed on today's call, please reach out to myself or Sue Lee, and we look forward to speaking with you again next quarter. Thank you.

**Operator:**
This does conclude today's Athene Holdings First Quarter 2020 Earnings Call and Webcast. Please disconnect your lines at this time and have a wonderful day.

END