

August 5, 2020
Athene Holding (ATH)
Q2 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

Mark Hughes

Analyst, Truist

Tom Gallagher

Analyst, Evercore ISI

Humphrey Lee

Analyst, Dowling & Partners

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Analyst, Wells Fargo

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Analyst, JP Morgan

ATHENE HOLDING LTD.
Q2 2020 Earnings Call
Moderator: Noah Gunn, Head of Investor Relations
August 5, 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 Second Quarter 2020 Earnings Conference Call and Webcast.

All participant lines have been placed in a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question at that time, please press "star" "1" on your telephone keypad. If you should need operator assistance, please press "star" "0." 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 welcome everyone to our second 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.

I will now turn the call over to Jim Belardi.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Thanks, Noah, and good morning everyone. Thank you for joining us today, and I hope you and your families are safe and healthy during these unprecedented times. Despite the ongoing extraordinary circumstances we are faced with in the current environment, I am pleased to report that Athene's investment spread business remains a bastion of consistent and growing strength. We are extremely well capitalized with over \$14 billion of regulatory capital and an under-levered, clean balance sheet. Our financial strength ratings were all recently affirmed at an "A" level by our three rating agencies, and we have experienced almost no impairments in our investment portfolio year-to-date.

We are not only built to weather the current storm, we are also built to capitalize on it. Since our inception, we have extolled the virtues of holding excess capital with a view that profitable growth is most available when capital is most scarce. Our second quarter performance is a testament to that fact. During the quarter, others in the industry without our strategic asset management advantage and significant deployable capital were forced to pull back from new business origination. Preliminary estimates from LIMRA report that industry fixed annuity volumes fell 4% quarter-over-quarter, while our retail sales increased 44% by comparison.

We are incentivized by profitability at Athene, not volume. By simply executing our business strategy, which includes maintaining our pricing discipline, pivoting opportunistically across our funding channels and supplying capital to support new business, we were able to generate record quarterly organic volumes of nearly \$7 billion at a 27% return, a record combination for Athene. This is confirmation of the resilience of our business and our team, demonstrating our ability to serve as a source of strength for our policyholders and business partners amid volatility.

While we are diligently executing in our day-to-day organic channels, we're also looking for opportunities to act as a solutions provider amid the ongoing restructuring across the insurance industry. During the quarter, we closed on the largest-known block reinsurance transaction by partnering with Jackson National and its parent Prudential plc. This is a compelling transaction that added nearly \$30 billion of high-quality liquid assets and fixed and fixed indexed annuities that we know very well. Most importantly, the returns are compelling, and at closing, the transaction did not use any of Athene's excess capital, a unique value-add combination. I am very pleased that we were able to work with members of the Jackson and Prudential teams to structure a transaction in which all parties created or unlocked value for the respective shareholders upon announcement.

Our ability to create win-win outcomes by leveraging our competitive advantages, including our scalable and efficient infrastructure, our ability with Apollo to drive alpha within our investment portfolio, our access to capital and our “A” credit ratings reinforces our status as the preferred solutions provider and trusted partner to a growing list of blue-chip counterparties.

The full strength of our business is best displayed when we are able to execute our organic and our inorganic strategies concurrently. Driven by what we expect will be record organic deposits for the full year, plus Jackson, we expect to add \$50 billion of gross deposits for the full year. This equates to 40% annual growth in invested assets, a very impressive accomplishment in the face of the current pandemic.

Our team is intently focused on maximizing earnings while maintaining our risk discipline. We are working hard on the investment side with Apollo to quickly invest our excess cash, prudently redeploy the inherited Jackson portfolio and to capture attractive spreads on the cash from our daily organic deposits.

We purchased more than \$11 billion of investments in the second quarter at a blended 40 basis point premium, net of fees, to the BBB corporate bond index, demonstrating the alpha-generating nature of active investment management.

Our activity can be summarized across three primary buckets. First, despite the rebound and tightening we saw in the second quarter, we're still seeing wider-than-normal investable spreads in public and private corporate bonds, which accounted for about 70% of our purchases, allowing us to transact quickly, in size, within deep, liquid markets.

Second, we are seeing attractive investable spread opportunities for structured securities, such as CLOs, RMBS and ABS that accounted for roughly 20% of our purchases. As a reminder, we focus on the senior investment-grade tranches of these structured securities, which benefit from significant credit enhancement and enable us to pick up incremental yield at a similar rating profile to our corporate purchases.

In the third bucket, we have differentiated solutions. These are bespoke investment opportunities that often come up through our affiliation with Apollo. This quarter, we participated in a transaction with MFA Financial, a publicly traded mortgage REIT. We partnered with Apollo and other third parties to offer a holistic financing solution for MFA. Given Athene's familiarity and historic success investing in residential real estate, the investment was a natural fit.

Ultimately, Athene deployed nearly \$1 billion of capital in the form of asset-backed term loans and a senior secured term loan with warrants. The capital was invested at a spread premium of over 400 basis points versus pre-COVID pricing for what we believe to be equivalent risk.

With this backdrop of the investing environment in mind, I'd like to connect the dots in terms of how it translates to our forward earnings power.

On our Q1 call, I spoke about how we were holding a higher-than-normal level of cash and available liquidity in our portfolio to be opportunistic amid the market volatility. While conditions remained fluid, given the market rebound and spread tightening we saw in the second quarter, we now expect to deploy more than half of the \$5 billion in cash balance we had at the end of the quarter. Excluding amounts related to the inherited Jackson portfolio, we expect to do this before the end of the year. This will return our cash level to a more normalized on-balance-sheet level of approximately \$2 billion, underpinning more than \$5 billion of total available liquidity which includes other sources of committed liquidity as well as our revolver. Deploying excess cash balances will increase annualized investment income by approximately \$120 million, which should increase our fixed income yield by approximately 9 basis points on a run-rate basis.

As it relates to the Jackson portfolio, our intention is to redeploy 75% or more of the nearly \$30 billion of investments we inherited to better align the portfolio with Athene's alpha-generating asset allocation strategy in investment-grade credit. I'm pleased to report that we are ahead of schedule since the deal announcement on June 18. We have reinvested more than \$6 billion or approximately 30% of the volumes in our redeployment plan. We estimate our redeployment activity will be substantially complete by the middle of next year.

At the end of July, the net book yield of the Jackson portfolio was 2.4%, a 60-basis point improvement on the overall portfolio from the 1.8% yield at the end of June, following the monetization of the treasury securities. As we continue to redeploy, we expect the yield on the Jackson portfolio to rise toward the yield of our existing portfolio. We underwrote the transaction to our attractive target returns for inorganic growth, and in line with our prior communication, we expect to deliver earnings accretion of 6% to 9% in 2021 and 2022, which equates to approximately \$90 million to \$140 million of additional adjusted operating income.

I'm now going to turn the call over to Bill, and then I'll be back to close our prepared remarks with some additional comments on our investment portfolio and capital. Bill?

Bill Wheeler, President:

Thanks, Jim. As you can see from our results, our business operations performed extraordinarily well under the circumstances in the second quarter. Despite a remote working environment, our teams sourced record organic deposits and closed our largest inorganic transaction since 2013. In the face of macroeconomic uncertainty as well as a historically low interest rate environment, these results demonstrate the strength and resilience of our multichannel distribution model.

As Jim discussed, we generated record quarterly deposits of nearly \$7 billion in our organic channels, resulting in more than 75% sequential growth. And importantly, we did not have to stretch to achieve these volumes. On an aggregate basis, underwritten returns on organic deposits in the second quarter came in very strong, as Jim noted, well above our mid-teens pricing targets.

There were several dynamics that made the quarter a great opportunity to originate new business. First, our ability to invest in a wider spread environment, synchronized with some of the lowest funding costs we've seen in the past decade, was instrumental to our near record underwriting margins.

Second, we witnessed various companies that were more aggressive last year pull back substantially, either because the rate environment compelled them to reduce pricing to less competitive levels or they had a desire to conserve capital.

While it may not seem intuitive given the overall industry pressures, our position in this type of environment got stronger, and overall, it was an ideal time to be in the spread liability business.

Turning to each of the channels, in Retail, we generated \$1.8 billion of deposits in the quarter, up more than 40% sequentially. Supported by our strong capital position, Athene has maintained its presence as an industry leader and a source of strength for policyholders and gained market share while maintaining pricing discipline in stark contrast to numerous competitors who pulled back to conserve capital.

Additionally, the breadth of our distribution capabilities which includes a growing presence among financial institutions, proved advantageous in the second quarter as several key partners were able to continue their retail annuity sales through their leading digital platforms. As a point of reference, nearly 40% of our retail annuity sales in the first half of 2020 were generated through bank and broker-dealer channels, and we anticipate that there could be additional growth over the long term.

I'm also pleased to announce that our new distribution relationship with LPL Financial went live in the back half of the second quarter, and while it will take months to fully onboard the ranks of their deep adviser pool, we are encouraged by the early progress we've seen and view the relationship as a significant growth opportunity. Moving forward, we anticipate retail volumes in the back half of 2020 could remain strong around second quarter levels.

In flow reinsurance, record quarterly deposits of \$2.3 billion were driven by outsized retail annuity sales from key partners, particularly those with a strong digital presence. While quarterly flow reinsurance volumes can fluctuate based on counterparty appetite and quota share levels, we are very pleased with the strong second quarter result. In a wider-than-normal spread environment, we were able to offer competitive pricing, which drove particularly strong volumes in May and June at attractive returns. Looking ahead, we anticipate reinsurance volumes could moderate from the record level seen in the second quarter as we observe others coming back into the market, although we expect activity to remain healthy overall, reflecting momentum with newer counterparties.

As you know, the majority of our overall organic origination comes from the U.S., but we have been making a conscious effort to see if there are other markets where we can leverage our competitive advantages to drive additional growth and diversification. Along these lines, you may recall that we've discussed the inroads we have made in the U.K. to provide pension solutions. Similarly, we have been evaluating the large Japanese fixed annuity market for some time. I am pleased to announce that we established a new fixed annuity flow reinsurance partnership with a large Japanese financial institution that became effective in July. This marks our entry into the third largest annuity market in the world and presents a meaningful long-term opportunity as well as further geographic diversification of our business.

Turning to the institutional business, we generated \$2.6 billion of deposits primarily driven by record activity in the funding agreement channel. The quarter's activity was driven by three sizable FABN issuances totaling \$1.4 billion, which included our inaugural euro-denominated issuance as well as a heightened level of issuance with the FHLB totaling \$675 million. The second quarter result was more than triple the activity in the prior quarter and double the \$1.3 billion of issuance we had in all of 2019.

As the spread environment tightened amid the second quarter market rebound, we took advantage of the opportunity to achieve very attractive returns. While we anticipate issuance in this back half of 2020 will moderate from the very strong second quarter result, we remain

optimistic on the pipeline, including the potential for another non-U.S.-dollar-denominated deal by the end of the year.

In PRT, activity moderated during the quarter, as expected. We closed one transaction with a large packaging company in April, as previously communicated. The pipeline of U.S. PRT deals appears quite strong in the latter half of this year. We will remain active in bidding for transactions that come to market and we are optimistic that our activity will recover from the second quarter lows.

Pulling it all together, we anticipate our aggregate organic growth activity in 2020 will exceed our prior guidance of \$15 billion to \$16 billion and likely hit \$20 billion, in line with the \$50 billion of gross deposits Jim highlighted earlier, which would be a remarkable result in the context of the economic backdrop.

On the inorganic front, I'd like to highlight a couple of additional elements of the Jackson transaction while also providing some context on how we're viewing the opportunity set from here. First, while we are willing to engage in a more traditional M&A activity, such as corporate carve-outs and whole company acquisitions, the block reinsurance transaction structure we employ with Jackson offers tremendous efficiencies with minimal execution and integration risk. Given the deep bench of talent we've built to support our inorganic capabilities in managing additional assets and liabilities, we can execute a deal like Jackson where we're bolting on a \$30 billion block of business, and we don't need to invest in a lot of new resources, a testament to our highly scalable infrastructure. Furthermore, the close time frames are often much shorter, so we can deploy capital and get to work on driving accretion much faster.

Second, when we worked with our partners at Apollo to raise more than \$3 billion of strategic sidecar capital last year, we looked forward to the capital flexibility and additional growth capacity it would provide. As far as we can tell, ACRA remains the largest pool of on-demand capital in the industry, allowing us to transact with more frequency and grow our business faster.

Third, the Jackson transaction builds on the past successes of other deals we've done including Aviva, Voya and Lincoln, among others. Each time we're successful at creating a win-win outcome for our counterparty and ourselves, our reputation as a solutions provider grows, and we receive inbound calls from new potential partners wanting to have a conversation.

We have more than \$7 billion of deployable capital available net of what's earmarked for Jackson, which translates to over \$85 billion of liability purchasing power. Following three

sizable fixed annuity transactions executed in the market this year, including ours, you may be thinking that the opportunity set from here is less robust. However, our pipeline is quite strong.

We continue to see a range of potential targets in the marketplace, and while some counterparties are waiting for more economic clarity, some remain engaged in discussions to explore strategic transactions. As we've noted, the industry continues to undergo significant consolidation and restructuring to reduce exposure to complex liabilities, shed non-core businesses or exit whole businesses or geographies altogether. We anticipate this will continue and perhaps accelerate in a prolonged low-interest-rate environment. Additionally, there continues to be a significant gap between public and private market valuations in the life insurance and annuity industry, as evidenced by the recent transactions where businesses have been acquired at multiples well above where public comps are valued. Ultimately, these gaps in value recognition will be closed, either through the public market recognition or more M&A activity.

With that, I'd now like to turn the call over to Marty, who'll discuss our financial results.

Marty Klein, Chief Financial Officer:

Thanks, Bill. Good morning, everybody. One of the key messages we'd like to reinforce with you today is that we have a very resilient business model that can generate attractive, through-the-cycle returns even when experiencing bouts of volatility or periods of low interest rates.

At a high level, our second quarter financial results benefited from a sharp rebound in capital markets, most notably for our Apollo, or AOG, investment. At the same time, our results were also burdened by first quarter market depreciation impacting alternative investments marked on a lagged basis, as we expected.

In our earnings presentation, you'll see that we've provided an illustration to help convey our core earnings power. In Retirement Services, which excludes the benefit of the AOG investment, if we normalize alternative investments toward our long-term return levels to immunize the transitory volatility of the first quarter, you can see that our earnings profile remains strong and that our ROE generation remains compelling in the mid-to-high teens. This can be credited to the strength and profitability of our spread-based model even in the low-rate environment.

I'll now spend some time taking you through the key components of our operating results. Starting at the top of the income statement, our large in-force business produces a mostly consistent and predictable fixed income NIER. That said, there are numerous factors, including

macro and business developments, that can cause it to move. Quarter-over-quarter impacts were largely driven by known factors, including lower floating rate income from declining interest rates, cash drag from prudently holding more liquidity amid market volatility and onboarding the Jackson transaction, which has a very low incoming yield of approximately 2% prior to redeployment efforts. These items combined accounted for nearly two-thirds of the sequential decline, but more importantly, cash drag and the Jackson onboarding are temporary in nature and should reverse over time as we redeploy those funds. In addition, we experienced a moderation in bond call and RMBS prepayment income, which adversely impacted second quarter results, but which will benefit income in future quarters. Corporates have been less likely to call their debt in this environment, while in our seasoned non-agency RMBS portfolio, individuals prepaid at a somewhat lower rate, pushing out some of the amortization of discount on these bonds into future periods.

Given the various levers that can move the fixed income NIER, let me walk you through the trends that we expect to emerge in the back half of the year and beyond. Our forward earnings will benefit from deploying excess cash and liquidity, capturing attractive on-the-margin spreads on new business as well as from the ongoing Jackson redeployment. However, in the very near term, we expect some additional drag from floater resets as well as the presence of the lower-yielding Jackson block in our results for a full quarter to result in a combined headwind of approximately 15 basis points in the third quarter. Accordingly, we expect that the third quarter will represent an inflection point for our fixed income NIER, and the benefits of our investing activity will lift the yield higher in the fourth quarter and even higher from there in 2021. Our full year 2020 fixed income NIER is now expected to be approximately 3.8%. As we've noted previously, our expectations assume stability around today's forward rate curve and current market conditions. Given short-term LIBOR's proximity to zero where we have floors on close to half of our floating rate portfolio, we believe our earnings potential from floaters is asymmetric and skewed to the upside at current levels.

Turning to Alternatives. As we expected, performance was bifurcated between the 40% of investments which are marked on a real-time basis and benefited from the market rebound versus the 60% which are marked on a lag basis, reflecting the delayed impact of first quarter volatility. Our real-time investments appreciated 8% in the quarter on an unannualized basis, while our lagged investments depreciated 8%, also on an unannualized basis, driving a blended decline of less than 2% in the quarter on an unannualized basis. This is a better result than we projected due to better performance in both parts of the portfolio and Jim will provide some additional comments around that in a moment.

Moving into the third quarter, if markets hold at the current level, our best estimate is that our alternatives portfolio will generate a higher-than-normal net investment earned rate of 11% to 13% due to the positive impact on lagged investments. For the year, we'd previously expected alternative income would be roughly breakeven, but with the second quarter market rebound, we now expect our full year alternatives NIER to be in the low-to mid-single digits.

Moving next to Cost of Crediting, our reported rate declined 5 basis points quarter-over-quarter, consistent with a downward trend in a low interest rate environment. This result was mostly driven by lower crediting rates on the institutional side of business. Institutional benefited from active funding agreement issuance in a low rate environment as well as a favorable PRT mortality result.

Meanwhile, although rate resets continue to benefit our in-force annuity business, the onboarding of Jackson reserves drove up the reported cost of crediting on deferred annuities by 3 basis points sequentially. I'd note that the Jackson liabilities have a somewhat higher credited rate than our annuities book but have a lower level of other liability costs. As we account for the full quarter impact of Jackson, we expect overall crediting rates to rise in the near term and come in between 180-185 basis points for the full year.

For Other Liability Costs, which represent the other part of cost of funds for our deferred annuities, we observed quarterly fluctuations that can occur as a result of significant short-term market movements, as we also saw in the first quarter. In the second quarter, Other Liability Costs were lower than normal as the S&P jumped 20% in the quarter, following a 20% decline in the first quarter. Additionally, Other Liability Costs benefited from less amortization expense resulting from lower gross profits and related income from alternatives as well as the onboarding of Jackson, which carries a lower rate of other liability costs than our in-force deferred annuity business.

Looking forward and assuming no market impacts, given the Jackson liabilities and a higher mix of in-force institutional business, we expect Other Liability Costs to be closer to 85 basis points in the back half of the year versus the normalized baseline of roughly 100 basis points we'd indicated previously.

Shifting to our platform costs, G&A expenses are a 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, and we expect this long-term trend to continue. With the Jackson assets added to our

platform as well as the robust organic growth Jim and Bill spoke about earlier, we think operating expenses as percentage of average invested assets will come in at around 25 basis points in the back half of the year, lower than previous indications.

Turning to taxes, as a reminder, our tax rate is a function of how much income we generate in our Bermuda subsidiaries versus our U.S. subsidiaries. With a stronger-than-expected market rebound in the second quarter, the mix of our profitability improved our outlook for the year, and so the second quarter tax rate benefited from a full year true-up. Previously, we'd indicated a mid-to-high teens tax rate for the year, but we now expect that could be closer to mid-teens level this year due to improved expectations for overall profitability and income mix.

I'll now move to our investment in the Apollo Operating Group entities; as a reminder, our equity interest in AOG is marked-to-market quarterly and the after-tax impact of any change in fair value is accounted for in a single line item with our operating results. In the second quarter, the price of Apollo's publicly traded common stock rebounded sharply, increasing almost 50% in the quarter following the market volatility that we saw in the first quarter. Additionally, we received dividends on our AOG investment. Net of a liquidity discount of approximately 10% and taxes of slightly more than 20%, the change in fair value of our AOG stake was \$372 million or \$1.79 per share.

With that, I'll turn the call back over to Jim.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Thanks, Marty. Before we take your questions, I'd like to address a couple of asset classes in our investment portfolio which have been areas of heightened focus recently.

First, the credit quality of Athene's overall investment portfolio has remained solid with only 1 basis point of OTTI in the second quarter and 2 basis points in the first half of 2020. Our portfolio has experienced minimal downgrade year-to-date, which net of upgrades has resulted in only 13 points of drag on our RBC ratios, which remain very strong in the mid-to high 400's. Importantly, we continue to expect that any potential credit losses resulting from the current environment will be very manageable given our robust excess capital position.

I'd like to take a moment to highlight Athene's differentiated CLO portfolio given the recent focus and media attention around the asset class across the insurance industry. As a reminder, Athene's CLO investments, which currently comprise approximately 9% of our invested assets, are a core component of our alpha-generating asset allocation strategy. By leveraging Apollo's

structured credit expertise, we can create meaningful incremental yield by investing in diversified pools of senior secured loans with significant credit enhancement and additional structural protections compared to similarly rated corporate bonds. In today's markets, the yield premium for CLOs relative to corporates is greater than 100 basis points.

In terms of credit quality, 99% of our CLOs are investment-grade rated and 99% of the underlying loans are first lien. Importantly, while CLOs can exhibit mark-to-market volatility in periods of market stress, we intend to hold these investments to maturity, supported by the long-term persistent nature of our liabilities. We regularly stress our asset portfolio, as you know, and we would expect no principal impairments on our CLO portfolio in our baseline recession scenario, which utilizes more punitive stress assumptions for CLOs than experienced during the Great Financial Crisis in 2008. To further support this and to provide you with all the key points about our CLO portfolio in one place, we will be posting a dedicated presentation on our CLO portfolio to our website later today.

Alternative investments currently comprise 4% of our nearly \$140 billion net invested asset portfolio, and our Alts are differentiated relative to traditional hedge fund and private equity investments, possessing a more defensive orientation that is less prone to binary outcomes. Our largest holdings are direct investments in high-performing, strategic operating businesses. As you recall, quarterly alternative investment performance is impacted by mark-to-market movements, although this does not necessarily indicate permanent impairment. As we expected, our alternatives portfolio has exhibited less volatility than public markets in the first six months of 2020. The portfolio is currently earning at a greater-than-10% annualized rate and has recovered the reduced value reported in the first quarter.

In the second quarter, there were numerous contributors that performed well. AmeriHome delivered a particularly strong result driven by gain on sale margins, elevated origination and refinance volumes from low interest rates as well as hedge gains on mortgage servicing rights.

Elsewhere in the portfolio, MidCap, our middle-market lender, saw a recovery in its valuation since the end of the first quarter, and it continues to be well positioned to weather the current uncertain economic environment, reflecting a strong capital position, which was bolstered by its recent equity raise.

Athora, which is viewed by some as an early stage Athene in continental Europe, closed their transformative acquisition of VIVAT in early April, which increased their general account assets

by five times 70 billion Euro and they raised more capital to pursue additional growth. On the back of this activity, we funded our commitment to support Athora's growth, upsizing our investment materially and we look forward to remaining partnered with the Athora team going forward.

Finally, as it relates to capital, we remain very well capitalized post the Jackson transaction with more than \$14 billion of statutory capital and \$7.3 billion of total deployable capital, comprised of \$3 billion of excess equity capital, \$2.5 billion of untapped debt capacity and \$1.8 billion of third-party capital remaining in ACRA. We expect to deploy capital in line with our four primary uses – to continue generating strong organic growth, close on additional inorganic opportunities, support our ratings and drive upgrades over time and execute accretive share repurchases.

It is very clear to us and to you as well that Athene shares are significantly undervalued relative to our strong fundamental performance and our attractive prospects. Accordingly, we plan to resume our share repurchase activity, utilizing a measured approach as we continue to monitor economic conditions.

We are a leader in the channels in which we operate and a preferred solutions provider to the industry. While we have spent the past 11 years penetrating the U.S. and Bermuda, we still have plenty of runway. We have also diversified our business in new geographies, including recent pension business in the U.K., our strategic relationship with sister company Athora where we are the largest investor which is scaling in continental Europe, and our new flow reinsurance partnership in Japan. We are now a growing global company with an expanding reach. Within our core market and newer growth plans around the globe, there is an abundance of opportunity in front of us.

In closing, our second quarter results confirm, and I remain very confident, that Athene will emerge from the current environment far stronger than when we entered. We will continue to grow our core earnings power and generate exceptional, industry-leading returns for our shareholders.

With that, I'd now like to turn the call over to the operator to take your questions.

Operator:

Thank you. At this time, if you would like to ask a question, please press "star" "1" on your telephone keypad. If you wish to remove yourself from the queue, you may do so by pressing the "pound" key. We remind you to please unmute your line when introduced and if possible, pick

up your handset for optimal sound quality. In order to ensure everyone receives a turn, we ask that you please limit yourself to one question initially and return to the queue for any additional questions.

Our first question comes from the line of Tom Gallagher of Evercore.

Tom Gallagher, Evercore ISI:

Jim, I appreciate the comments you made on the credit side. I think that's where most of the concerns that I hear come from and probably weigh in your valuation the most. My question is how you balance the favorable asset prices that we saw and the big recovery, in my mind, a large part driven by the Fed QE, and what appears to be the poor conditions in the real economy? How are you balancing that? Because it does look like if you want to de-risk, there's an opportunity today, but it doesn't sound like you're inclined to de-risk. So maybe talk a bit about that balance.

And also, if you are as confident as you say in CLOs and some of the other higher-yielding exposures you have, what are the pockets of fixed income that you're more worried about that you think you see asymmetric risk/reward on the downside?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Thanks, Tom. So look, we're not out of the woods by any stretch of the imagination. This pandemic is going to have long-lasting effects into 2021, in some sectors beyond 2021, and in some cases, things are never going to return to what they were before. And so even before the pandemic, Tom, we were always looking to make sure the credit quality of our portfolio was where we want it. We generated a lot of gains from the Jackson portfolio and selling the treasuries, which were key to the economics of the deal, and we've continued to sell what we think are potentially problem credits, some candidates set for downgrades that would move from BBB to BB, we think it was a prudent economic thing to do.

So look, we're going to experience some losses. We don't think they'll be outsized compared to others and certainly within our risk appetite. We continue to say and are still convinced, as we speak today, we have much more risk to downgrades than we do to defaults. And the candidates for the problem areas are what you'd expect. I mean airlines are having some trouble. Our PK AirFinance deal, however, is doing quite well. The attachments and the LTVs there are low-to mid-50s, and it's performing well.

Within asset backed, I think there's been some downgrades in the fleet lease rental car space, whole business and aircraft. Those are all areas we're watching. We don't have a significant amount there, but we have some.

Our commercial mortgage portfolio is doing very well. As of the end of July, we successfully collected debt service payments for 99.9% of our CML positions with only two delinquencies totaling \$6 million of outstanding balance.

As I said in the past, I think we're going to be a significant player in both commercial and residential real estate, but if we had to emphasize one or the other, we'd emphasized residential, betting on people staying in their homes more than they will return to work, just like they did before the pandemic, and we have particular expertise in the residential real estate. We mentioned the transaction we did with MFA.

But our portfolio, subject to some volatility on prepayments, et cetera, the credit quality is just as we had expected. We continue to be underweight high yield. When we get extra yield, we don't go down the capital structure and take more credit risk. Instead, we think it's more prudent and so far the results have borne out to generate yield through illiquidity and some structure risk. So, it sounds like a common refrain, but we're cautiously optimistic. We have a long way to go to really have things out of the market. The Fed has helped, no doubt about it.

I hope that answers the question, but those are the things that we look at.

Tom Gallagher, Evercore ISI:

No, I appreciate. That was comprehensive about what you're thinking on that end. My follow-up is, Marty, your slide which shows the fixed income NIER, as kind of a sample path forward of 3.8% in 2021, what do you see that translating to from an ROA standpoint overall? I know you guys had talked in the past about 110 to 120 basis points. I'm assuming that's probably off the table now just given where rates are and some of the pressures. But I know you also mentioned some pretty considerable lowering of, we'll call it cost of funds or other liability costs as an offset. So where do you see ROA trending into 2021, Marty?

Marty Klein, Chief Financial Officer:

Sure, Tom. There are some dynamics that were playing through our financials this year that, again, we think are largely transitory with the Alternatives marks, and we still think the alternatives book is going to perform from here in line with our long-term expectations of anywhere from 10% to 12% over time. And obviously, interest rates have come down so that

impacts our floaters, but we also do get reduced crediting rates on our in-force annuity book over time, which catches up over time.

By the way, just a reminder on the slide, we think we end the year at 3.80% for the full year, but it has a greater than sign and we think there's uplift in 2021 from that 3.80% rate, so it's greater than that. And then obviously, we expect Alts to recover.

From a return on asset standpoint I think that in 2021 we get to a level where we were probably last year. Last year, in 2019, we were around 110 basis points, and I kind of expect a similar ROA in that net investment spread of about 150 basis points. If you think about our net investment spread in 2021 as things play through here, yes, our fixed income NIER will be a little bit lower than it had been if interest rates kind of stay where they are with the forward curve. But our cost of funds we expect to almost entirely offset that.

We've been putting on a lot of very low-cost business, and then we'll continue to drop rates on the in-force. So we expect our net investment spread to kind of be around, call it, 150 basis points next year and return on assets to be close to 110 and we probably think there's going to be more lift from there because in 2021. We won't have totally completed the Jackson redeployment until kind of midway through the year or three quarters the way through the year and so 2022, again, in a stable environment, should be even better than that. So maybe we get to 120 basis points of ROA going there.

Operator:

Your next question comes from the line of Erik Bass of Autonomous Research.

Erik Bass, Autonomous Research:

Given your excess capital position and the strong growth momentum you're seeing, how are you thinking about the different deployment options for capital? And do you see enough organic and inorganic opportunities to absorb most of the excess capital? And I know you mentioned you'll be resuming share repurchases, but how do you think of the level of that given those are compelling as well with the stock trading at less than 70% of book value?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Yes. I'll start, and then I'll turn it over to Bill. We mentioned our four uses of capital. We're going to use capital for all four. Capital is going to support our record organic premiums for the year. Bill will talk about the inorganic pipeline, but we have a couple of deals that we're looking at that

are fairly significant. Everybody knows that our stock is undervalued so we're going to resume in a measured manner our buybacks. And ratings upgrades, we're on the right trajectory there. So it's pretty much reiterating what I said on the call. I'm not sure there's much more to add other than maybe Bill can talk about the inorganic pipeline.

Bill Wheeler, President:

Yes, Jim. Erik, if we do \$20 billion this year, which seems pretty likely now and my expectation is that's going to grow. We haven't put out a forecast for '21 yet, but there's no reason to think this is really a blip. We're continuing to take share. We're getting into new markets. On the organic growth machine we haven't hit a peak by any stretch. In terms of deals I think that we're already back in the market where there are some smaller targets. There's also some big ones and I think that there's going to be an opportunity to get another deal done this year of some size and certainly a lot of activity next year.

The issues that are causing companies to restructure their balance sheets haven't changed. If anything, they've intensified. We're the guys who have the capital to help them facilitate that. So I feel like we're going to have a chance to deploy a lot of our excess capital over the next, call it, 18 months or so.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

I would just add to that, I agree with everything Bill said. I think the Global transaction, where they acquired it at book value, I think has caused some people that have been on the sidelines on the seller side to kind of reevaluate whether maybe more robust valuations, similar to what Global went for, to reevaluate whether they want to do something, which is a positive thing. I think it's spurring a few more discussions than normal.

Bill Wheeler, President:

That's right.

Erik Bass, Autonomous Research:

And then just a follow-up on the organic growth side. You mentioned some of the competitive dislocations in the second quarter. Is that continuing? Or are you seeing some of your competitors on both the retail side and reinsurance start to come back to market and the environment is getting a little bit more competitive?

Bill Wheeler, President:

Maybe modestly more competitive, but we're not seeing much difference yet really. If you look at our activity levels so far this quarter, we're obviously just a month in but I don't think the environment has changed very much.

Operator:

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

Andrew Kligerman, Credit Suisse:

Structural product questions. Maybe first, Bill, you mentioned the new annuity product that you're going to be offering in Japan. Could you give us some color around the structure of that product? Is it dollar denominated? What is the market outlook there?

Bill Wheeler, President:

Yes. Well, if you know much about the Japanese fixed annuity market, a lot of it historically has been sold in either U.S. dollars or Aussie dollars and with the idea being that the underlying investments are in Australia or the U.S. because Japanese fixed income markets have always been so low yielding in the last decade or 20 years or so. This product is a little different. It's an indexed annuity. The underlying index is a portfolio of Goldman funds, and it will be sold both in yen and in dollars.

Being sold in yen and then we manage the currency exchange risk and therefore invest the money in dollars, I think, is actually going to be a nice feature for the Japanese consumer. We're only a few weeks in, and I'm already pleasantly surprised about the volumes that are coming through and we're already having discussions with our second provider there.

I would also just say, if you look at the nature of the terms of the underlying fixed annuity, the lapse rates are very punitive, and it has a fixed maturity. So after 10 years, the consumer has to decide to renew or not with a new contract with new pricing. So from a risk profile point of view, it's probably more conservative than what we saw in the U.S.

Marty Klein, Chief Financial Officer:

Just to add on, the surrender charges are very punitive, not the lapse rates. The lapse rates are very predictable because of the punitive surrender charges, so it's almost like 10-year funding agreements in many ways.

Andrew Kligerman, Credit Suisse:

And you don't plan to hedge the currency risk?

Bill Wheeler, President:

No, we definitely will hedge the currency. Absolutely.

Andrew Kligerman, Credit Suisse:

Yes, regarding the fixed indexed annuity structure, given the 40% increase in sales, what is it in your offering that is so competitive versus the competition? What's the market participation upside versus competitors and maybe the downside versus competitors? I want to understand what enabled Athene to be so strong.

Bill Wheeler, President:

Right, the downside is zero, obviously. It's not like a buffered annuity where you can actually lose some principal. Here, your principal is protected, and of course, that's why this is such a good retirement instrument.

On the upside, we're offering participation rates on various indices, which are maybe 10 points higher than the competition in many cases, it depends. The other thing that makes our annuities more attractive is we oftentimes offer bespoke indices which is much more appealing, I think, to financial advisers to offer something a little different than just typically the S&P 500. So I would say today, if you look at our in-force, probably half of it is tied to the S&P 500. So we do offer a little better participation rates. We don't offer more compensation, our compensation is middle of the road and that's what's worked.

What's happened, of course, Andrew, is our pricing really hasn't changed, but our competitors have pulled back and that's probably the bigger reason for the sales increase.

Operator:

Your next question comes from the line of Ryan Krueger of KBW.

Ryan Krueger, KBW:

Jim, I had a follow-up on your question about the Global Atlantic sale price at book value. When you said that was causing, you thought, some companies to reevaluate options, was that comment more in regard to whole companies considering that option or reinsurance transactions?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

I think both. Ryan, as you know, our preferred way to grow is exactly like we did with Jackson, a block reinsurance deal. We don't need the infrastructure, people, et cetera, but we're flexible. We can construct a deal, whether it's a whole company or just a block, we've done it that way and each way several times, and so we have experience. And so yes, we're flexible on that but I think both.

Operator:

Your next question comes from Jimmy Bhullar of JP Morgan.

Jimmy Bhullar, JP Morgan:

With more and more people expecting rates to stay low for a depressed period, and that number is even greater now, are you planning on any changes to your investment strategy where you either reduce or increase your exposure to floating rate investments because you're not getting paid much on those now?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Yes, you're right. It would have been better, at least economically or P&L wise, Jimmy, if we had hedged those. First of all, a portfolio our size, we think it's just prudent to have some floating rate exposure as well as mainly fixed, so we're going to have some. It's just a matter of what the right amount is.

Look, at the levels LIBOR are now, there's not much more it can go. We have LIBOR floors inherent in about half the floating portfolio. LIBOR can't go negative and then we get the coupon on top of that plus the amortization of the discount. So, we're not going to hedge and do anything different right now, certainly at these levels.

I also would let you know that when our block ages, we still have most all of the block on the annuity side protected by surrender charges. But the Jackson block had some things outside of surrender charge as well and the disintermediation surrender rate could increase when there's no surrender charges when rates go up. And the presence of these floaters on the asset side with rates going up that provide more income does serve as a risk mitigant for us against those potentially surrenderable liabilities. The probability of them going out the door are higher when rates go up. So it serves as a mitigant. It also helps us in general with cash flow testing. So there are peripheral benefits from holding some floaters, although income hasn't been one of them recently.

Marty Klein, Chief Financial Officer:

I would just add further to Jim's point that if rates went down 25 basis points from here, we've had that guidance of \$25 million to \$30 million of impact, I think that's probably close to half of that impact now given some of the floors that Jim talked about. So it's asymmetric. If rates go up, it's \$25 million to \$30 million more income, but if they go down, maybe it's \$15 million to \$20 million less and then from there, it's even less downside.

Operator:

Your next question comes from Elyse Greenspan of Wells Fargo.

Elyse Greenspan, Wells Fargo:

Two quick questions, my main question would, Bill, you said you bucketed it into two different categories: those waiting for clarity versus those willing to transact. Is there a size differential between deals within those two buckets?

And then my quick numbers question would be, you called out favorable mortality within your PRT business in the quarter, can you just put a number on that?

Bill Wheeler, President:

Sure. Elyse, I'll go first, and then Marty will talk about the mortality result. No, I don't think there is a size difference between those two buckets. With management teams at other companies, sometimes they have a fairly big in-force block, sometimes it's relatively smaller relative to their other operations. It's more sort of where they are in their particular situation. It's very case specific in terms of what's going on. Some people really, I think, will feel compelled that they need to do something now. Others others feel they can afford to wait.

But I will say this, I don't think people are waiting any longer for higher rates, right? I think they've realized that that's probably not something they should do. It's more just about where their capital position is relative to what kind of credit losses may occur over the next twelve months or so.

Marty Klein, Chief Financial Officer:

And Elyse, it's Marty. On the mortality item in PRT, if you look at the institutional credit rate, it dropped, I think, about 44 basis points sequentially. And I'd say probably about 2/3 of that drop was due to this mortality phenomenon, kind of a good guy. And the other, say, 1/3 is due to some of the funding agreement impacts we talked about. So as we gave that guidance in my remarks, we're obviously not predicting future mortality benefits. So we kind of just assume that's just

happening in this quarter.

Operator:

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

Humphrey Lee, Dowling & Partners:

Just going back on the Japan and flow reinsurance opportunities. Can you maybe size the potential there? And then also, do you have any kind of cap or risk tolerance on business coming from Japan?

Bill Wheeler, President:

Humphrey, a little bit of the second part of your question dropped out. In terms of size, look, I think when we went into this arrangement, our target was \$500 million of deposits for a one-year run rate. I would say, based on just a couple of weeks of sales, that number maybe has upside. So we'll see.

And of course, there are other potential partners in Japan. This is just the first one. And I think once you've sort of cracked the market, and if you've had success, I think there's going to be a lot more opportunity.

In terms of risk, how much would we take? Well, that's a good question. Obviously, we don't want a whole liability portfolio where we're always hedging the exchange rate risk. I don't think we have a target pool in mind right now. But the reality is the rest of the company is growing so fast, if the Japanese business can keep up, that'd be great, but it probably won't.

Operator:

Our final question will come from the line of Mark Hughes of Truist Securities.

Mark Hughes, Truist:

Very quickly, on the independent agent channel within Retail, have you seen that start to come back? I think there are operational challenges in making those sales. Are you seeing any recovery?

Bill Wheeler, President:

I do think it's coming back. If you think about what happened, the independent marketing company adviser probably lost the ability to do a lot of his sales because he lost his face-to-face. So he went through his prospect pipeline, and that helped him for a while, but I think sales have

suffered a little bit with the inability to get face-to-face with customers. So I think as the market opens up and that's actually going slow but I do think they'll recover.

There are some operational challenges, but they're not substantial. One thing we've done, there literally are still advisers who submit apps by paper and just like in the rest of our lives where we've become much more virtual and digital, advisers have learned they need to become more digital, too. So I think you're seeing a lot of change in behavior even among these types of advisers. I'm sure that's had a small impact in terms of the virtual nature of communication between us and advisers, but I think we've overcome a lot of it.

Operator:

At this time, I'd like to return the call to Noah Gunn for any additional or closing comments.

Noah Gunn, Head of Investor Relations:

Great. Thanks, Lori, and thanks, everyone, for joining us this morning and for your interest in Athene. If you have any follow-up questions regarding anything we discussed on today's call, please reach out to myself or Sue Lee, and we look forward to speaking with everyone again next quarter.

Operator:

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

END