February 17, 2021

Athene Holding (ATH)

Q4 & FY 2020 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

Ryan Krueger
Analyst, KBW

John Barnidge
Analyst, Piper Sandler

Humphrey Lee
Analyst, Dowling & Partners

Mike Ward
Analyst, UBS

Andrew Kligerman
Analyst, Credit Suisse

Tracy Benguigui
Analyst, Barclays

Elyse Greenspan
Analyst, Wells Fargo

Lee Cooperman
Investor, Omega Family Office

ATHENE HOLDING LTD.
Q4 & FY 2020 Earnings Call
Moderator: Noah Gunn, Head of Investor Relations
February 17, 2021
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 Fourth Quarter and Full Year 2020 Earnings Conference Call and Webcast. All participant lines have been placed in 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 one on your telephone keypad. If you need operator assistance please press star zero, 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:
Welcome to our fourth quarter and full year 2020 earnings call. Joining me this morning are Jim Belardi, Chairman and CEO; Bill Wheeler, President; and Marty Klein, our Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website.

As a reminder, this call may include forward-looking statements and projections, which do not guarantee future events or performance. We do not undertake any duty to 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. And you'll find reconciliations of these metrics within our earnings materials available at ir.athene.com.

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

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Thanks, Noah, and good morning, everyone. Thank you for joining us and for your continued interest in Athene. We are incredibly proud of the strategic progress we've made in building our business and generating a track record of consistent excellence. Despite the pandemic, we've been executing our business plan with tremendous focus and discipline. And as a result, our team has produced remarkable achievements.

In 2020, we generated a record $56 billion of total inflows across our diversified funding channels. This result was made possible by record organic inflows that saw each of our channels earn expected first place market share for the first time ever as well as our execution of the largest reinsurance transaction to-date. As I've said before, when we can combine organic and inorganic growth simultaneously, our business is truly firing on all cylinders and the results are powerful.

As a net spread business, even more important than our robust growth are the returns we generate. I'm pleased to report that across all of the years' organic activity, our blended underwritten return on new business was 19%, well in excess of our already above average targets. This result aligned with our longstanding view, that profitable growth is most available when capital is most scarce. And we certainly saw a retrenchment of capital in the marketplace amid the volatility of the past year.

Since we possessed significant capital resources and flexibility, we were well prepared to drive outsized profitable growth during this unique period. Next, we continued our track record of top tier investment performance and yield generation. We are intently focused on maximizing earnings while maintaining our risk discipline. Even in a low interest rate environment, we continue to capture yields at a premium to the broader market, consistent with our philosophy to generate excess return as active asset managers. The yield on our fixed income purchases in the year was approximately 40 basis points higher, net of fees than the BBB corporate index.

This outperformance demonstrates the alpha-generating nature of our active investment management partnership with Apollo. Over the course of 2020, we invested a total of $46 billion, the most we've ever done. One of the most important areas of focus at Athene today is working with Apollo to source senior directly originated high-grade alpha credit investments.

This type of investing can take a variety of forms, but ultimately, the goal is the same, provide incremental return without assuming incremental credit risk by controlling the underwriting process and capturing illiquidity, size and complexity premiums. Instead of simply investing in the low spread, low absolute yield opportunity that's readily available to everyone in the market, we are working hard alongside Apollo to source the alpha assets that differentiate our business model.

Given the size of our balance sheet, we can serve as a sole or majority buyer to a financing counterparty, speaking for whole transactions if the situation warrants it, which provides a meaningful advantage when sourcing attractive investments. During 2020, there were numerous examples in the public domain of bespoke, high-grade alpha asset transactions. Some of which we've highlighted in our earnings presentation.

On average, these transactions typically target approximately 100 to 200 basis points of incremental yield versus comparably rated public credit. Combining these bespoke transactions with assets from varying platforms, we invested approximately $7 billion or 15% of our aggregate deployment, indirectly originated assets in 2020. These figures compared to $3.5 billion or a little more than 10% of our total deployment in 2019, illustrating the growing focus we and Apollo are placing on these investment capabilities.

When stepping back and reflecting on the environment in which we've been operating recently, our achievements in 2020 are even more significant. As an operator who drives profitability from manufacturing spread, one might conclude our business is not able to cope with persistently low interest rates. On the contrary, Athene's spread manufacturing capability is ideally positioned to and already has thrived in a variety of interest rate and economic environments.

As a spread-based business, we do not require higher rates to deliver compelling earnings and book value growth. And our performance over the past few years demonstrates this. In 2020, the average yield on the 10-year treasury was approximately 200 basis points lower than it was in 2018. Amid this backdrop, some may have expected our pace of growth to slow and our returns to compress. But in fact, the opposite was true. As we employed our disciplined strategy, grew profitably, and produced new records. For example, our organic inflows have doubled since 2018. We've executed a large-scale inorganic transaction. Our average net invested assets have grown at a compound annual rate of 20%. And our earnings are poised to reach new heights from all this growth in 2021.

As you will see in our earnings presentation, the spread on our inflows has actually increased during a period when the 10-year treasury yield declined by over 200 basis points. These achievements demonstrate that our ability to grow significantly and profitably are not dependent on a higher rate environment. Besides day-to-day execution of our growth strategy, we continue to be focused on two near-term priorities, which will help drive forward earnings power.

First, we continue to make progress in redeploying the inherited Jackson portfolio to bring it in line with Athene's alpha-generating asset allocation strategy. I'm pleased to report that through January, we have reinvested $14 billion or roughly 70% of the volumes in our redeployment plan, successfully raising the yield on the portfolio by approximately 130 basis points in just seven months. We continue to expect that our redeployment activity will be substantially complete by the middle of the year.

Second, we are reducing our elevated cash balance of approximately $5.25 billion that we held at year-end. We expect to return our cash level to a more normalized on-balance sheet level of approximately $2 billion. Deploying excess cash balances will increase annualized investment income by approximately $100 million, and our overall fixed income yield by approximately seven basis points on a run rate basis.

Importantly, the credit quality of Athene's overall investment portfolio has remained strong throughout the pandemic, a testament to our disciplined risk appetite and Apollo's underwriting standards. We have experienced negligible intent to sell impairments in 2020, totaling just one basis point of our average net invested assets. And we continue to expect that any potential credit losses from this point forward will be very manageable.

Given the strong performance of our alternative investments in the quarter, I'd like to spend a moment focusing on this asset class. Alternative investments currently comprise 5% of our portfolio. And as a reminder, 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. I am pleased to report that despite the market volatility in 2020, the portfolio is performing very well. And the strong annualized return of 20% in the fourth quarter helped drive the full year return to be close to our long-term double-digit return baseline forecast.

In the fourth quarter, we saw broad based strength across the portfolio, which benefited from relatively balanced performance between holdings marked on a lagged and real-time basis. AmeriHome, our largest single alternative investment delivered a particularly strong quarter resulting from the continued strong operating performance of their business.

As you may have seen announced yesterday, AmeriHome is being acquired by Western Alliance at a significant premium to our current holding value. This sale is a fantastic outcome for Athene and helps our shareholders realize the value of our differentiated alternative strategy. Recall that part of our alternative investing approach is to strategically plant seed corn by investing directly in businesses we believe in, help them grow over a multi-year period while earning an income along the way, and then harvest a strong return upon exit. As a result of the announced AmeriHome sale, we expect additional revenue in the near-term that Marty will walk you through shortly.

Another strong contributor to fourth quarter alternative performance was Venerable, the variable annuity company created as part of the re-insurance transaction we did with Voya in 2018. The business has been performing very well to-date, generating capital, and the team recently announced its first strategic transaction with Equitable, which is expected to close later this year. Other differentiated alt holdings, such as Athora and Catalina also performed well, complimenting the strength of our diversified holdings across other pockets of alternatives, including real estate, real assets, credit, and natural resources.

Turning to capital, we remain extremely well capitalized with approximately $16 billion of aggregate regulatory capital, and an under levered clean balance sheet with no legacy issues, characteristics, which meaningfully set us apart from the field. In 2020, we deployed close to $3 billion of capital to support our record organic growth at very strong returns, our large-scale inorganic transaction with Jackson, and accretive share repurchases. We also grew our excess capital over the past year, amid the pandemic crisis to be well-positioned for additional growth opportunities and to continue our ratings upgrade trajectory.

We firmly believe that efficient capital deployment drives growth, franchise enhancement and ultimately value creation for shareholders. Heading into 2020, we are extremely well-positioned with close to $8 billion of total deployable capital to support the four primary uses of capital that we have outlined.

At the present time, we see an abundance of fertile ground on the organic front, as well as numerous opportunities to act as a solutions provider through inorganic transactions. And we expect ratings or outlook improvement from all three rating agencies this year. We ended the year with an adjusted book value of approximately $57 per share. And by efficiently deploying capital, we have achieved a long-term track record of compounding our book value by a substantial 16% per year, three times the industry average since 2009.

Athene has now exceeded $200 billion of total assets for the first time. 2021 is setting up to be our best year ever. We believe we have achieved number one status in all five of our organic and inorganic funding channels. We have best-in-class asset performance with Apollo and we have a growing worldwide presence with business, significant investments or operations in the U.S., Bermuda, Canada, the UK, Continental Europe and Japan.

Our large excess capital position and access to additional capital make us the best positioned company to continue to take advantage of the accelerating restructuring in the life insurance industry. For those of you that are shareholders, we appreciate your recognition of our performance and unique positioning for future profitable growth.

With that, I'll turn the call over to Bill to provide additional details on our organic and inorganic growth activity.

Bill Wheeler, President:
Thanks Jim. As you can see from our results, our organic growth engine continued to perform very strongly in the fourth quarter, which drove our record quarterly and annual results. These results continue to demonstrate the strength and resilience of our diversified funding model, which has been built over more than a decade to source low costs, predictable long-term liabilities. We generated record inflows for the third consecutive quarter, totaling more than $9 billion in the fourth quarter, which helped drive a record $28 billion of gross inflows for the full year. Our blended underwritten return on this activity came in well above our targets at 19% for the full year, representing our second-best year of profitability on new organic business.

Despite these remarkable results, it seems to us that our differentiated highly profitable and accelerating organic growth capabilities are not fully appreciated by the market today. To provide additional transparency and perspective, we have introduced some disclosure enhancements, which divide our net organic growth. This metric includes the impact of the

relatively consistent and predictable organic runoff that we experienced as policies mature over time.

Inclusive of these organic outflows, our net organic growth was $21 billion in 2020, resulting in a net organic growth rate of 27%. Looking at our production longer term rather than just a single year, you'll see that our multi-year production is very similar with an average net organic growth rate of 26%. When surveying the competitive landscape, including other fixed annuity issuers, as well as the broader financial services sector, it quickly becomes apparent that our organic growth production is very compelling. This is especially true when considering the relative duration of our inflows, which have a weighted average life of eight to nine years, when they come in the door versus other businesses who may be subject to penalty free daily, monthly or quarterly redemptions.

Turning to each of the channels, in retail, we generated nearly $8 billion of inflows in 2020, including $2.3 billion in the fourth quarter. Our full year retail inflows represent 15% year-over-year growth, despite the environment. Our industry FIA sales moderated significantly amid the pandemic; we were well positioned with our numerous competitive advantages that are driving a much different result for us than others are experiencing.

According to LIMRA, Athene placed first for fixed indexed annuity industry sales in the second and third quarters and we believe our strong fourth quarter results will place us in a similar position when the full year industry results are published. Our fixed rate annuities or MYGA business generated relatively strong sales and drove nearly 20% of our activity in the fourth quarter. We delivered our best year of MYGA sales in 2020, a trend that is being driven by our growing presence in the financial institutions distribution channel that allows us to have product positioned on leading digital platforms.

In terms of distribution trends, 50% of our total retail annuity sales in 2020 were generated through the bank and broker dealer channels, which compares to less than 30% in 2019. While the 2020 result has been partially driven by pandemic related disruption in the IMO channel, we believe that distribution inroads we have made within the financial institutions channel are very meaningful. Expanding distribution at financial institutions, particularly at large platforms, such as LPL and Truist, where we are benefiting from the maturation of new relationships, offers attractive upside for future sales activity and drives greater diversification stability for our retail business.

Looking ahead to 2021, we expect our retail inflows will face some pressure from an increasingly competitive environment. We're observing numerous issues becoming more aggressive, underwriting new business at levels that would imply breakeven or negative spread. You should expect that we will maintain our pricing discipline and we will not sacrifice shareholder returns to maintain a certain level of market share.

Turning to our PRT channel, we generated our second best year of pension closeouts only exceeded by 2019, which included the marquee Bristol-Myers transaction. Given that the PRT market was disrupted by the pandemic, which delayed activity across the industry in the middle part of the year, we saw a flurry of activity in the fourth quarter with inflows totaling more than $4 billion across six transactions. For the year we closed $5.5 billion of transactions, which we estimate accounted for approximately 20% of the U.S. market activity in 2020, solidifying our position as the market leader.

Looking ahead, we expect our PRT business to remain active in 2021 as the cadence of industry activity normalizes. While it is too early to predict the deal volume for the year, the pipeline currently looks to be in good shape. Of all our organic channels, we generated the most significant year-over-year growth in funding agreements. Our inflows in this channel increased six-fold, totaling more than $8 billion for the full year, including $2 billion in the fourth quarter.

One of the drivers of our robust growth in funding agreements during the year was the expansion of our funding-agreement backed note program to reach Canadian and European markets.

While all our non-USD activity is swapped back to dollars, we are issuing in various currencies as market opportunities warrant, and by doing this, we are attracting a broader set of investors and diversifying our activity. As the spread environment continues to tighten as the year progressed, we took advantage of the opportunity to issue and achieve very attractive returns. We are optimistic funding agreements will have another strong year and we're off to a good start with over $2 billion of issuances thus far in the first quarter.

Lastly, in our third-party flow reinsurance channel, we generated record activity for the year with $6 billion of inflows, primarily driven by our ability to serve as a source of strength for our flow reinsurance partners in the immediate aftermath of the pandemic during the second and third quarters. As the environment improved, fourth quarter activity moderated significantly, as expected. Given the visibility we have with key partners, for various reasons, flow reinsurance

activity can increase and decrease depending on the appetite of the counterparty to supply capital and internalize the business or their willingness to accept pricing conditions that align with our target return threshold.

During the quarter, we saw a bit of both dynamics at play. As we look ahead at 2021, we expect that our flow reinsurance channel will generate strong inflows. Although, we'll likely moderate from 2020 highs, given some of the unique market dynamics that were in play during the past year. In summary, we anticipate healthy organic growth to continue and be underwritten to our targeted mid-teen returns or better. Our current baseline estimate is that organic inflows could total approximately $25 billion in 2021.

On the inorganic front, we continue to see significant opportunity to deploy our excess capital at attractive returns. As you've likely observed, our large reinsurance transaction with Jackson in June seemed to kick off an increase in deal activity across the industry. We've seen a mix of block reinsurance transactions as well as whole company acquisitions, as sellers realigned their businesses to achieve desired strategic objectives and buyers recognize the long-term value of businesses like ours.

We have been talking for some time about the insurance industry restructuring trend, and we're well positioned to play our part in this activity. Our deep expertise, swift execution capabilities, unmatched deployable capital position and flexibility to structure win-win outcomes position us as a preferred solutions provider. Importantly, as Jim mentioned, we have $7.7 billion of deployable capital available net of what is earmarked for the Jackson portfolio repositioning, which translates to more than $90 billion of liability purchasing power. As we look to our pipeline, we believe there will be numerous opportunities to deploy this capital in 2021 and beyond.

Our longstanding commitment to our shareholders to be a disciplined buyer, and deploy capital in a manner consistent with our attractive return targets has not changed. And we will continue to execute our inorganic growth strategy.

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

Marty Klein, Chief Financial Officer:
Thanks Bill, and good morning, everybody. We delivered particularly strong financial performance in the fourth quarter, which closed out an outstanding year for Athene in light of the macro volatility. This morning, I'll provide some additional context around our results while also discussing some of our forward perspectives in the near-term and for 2021. For the fourth quarter, we reported GAAP net income of $1.1 billion or $5.44 per diluted share, our adjusted operating income available to common shareholders for the quarter was $558 million or $2.85 per share.

Excluding notable items of $41 million, as well as our strategic Apollo investment, total adjusted operating income was $404 million or $2.06 per share. Retirement services adjusted operating income excluding notables was $452 million resulting in an adjusted operating ROE excluding notables of 24% for the segment. The profitability of our spread based model remains very compelling, even in the low interest rate environment, as we continue to originate business meeting or exceeding our target returns with an even higher spreads than we saw a couple years ago in a higher rate environment. Our fourth quarter results also benefited from strong performance in our alternatives portfolio, as Jim discussed earlier.

Let's cover the key components of our operating results, starting at the top of the income statement. Our large in-force business produces the mostly consistent and predictable fixed income yield. In the fourth quarter, we saw some of the continued benefits of the Jackson redeployment efforts being realized, as well as higher call income from bonds and mortgage loans. These two drivers resulted in the fixed income NIER coming in above our expectations, despite continued cash drag from the very strong organic deposits in the quarter.

Looking forward, our fixed income NIER will benefit from two items, deployment of excess cash and continued redeployment of the Jackson portfolio. The fruits of our effort for both these items will ultimately be dependent on the investment opportunities we can source and the overarching credit spread environment. We saw continued tightening in the fourth quarter, and we ended the quarter with more cash in hand than previously anticipated. As a result, we expect the fixed NIER will drift toward our prior expected level for the fourth quarter or approximately 3.6% in the near-term. Should new money yields remain the same and with organic volumes similar to 2020 levels, we would expect that fixed NIER level to hold more or less throughout the year of 2021.

While the continued redeployment of the Jackson portfolio and reduction in excess cash will benefit the fixed NIER, on the margin fixed yields and new inflows are lower in the current environment. However, these inflows have commensurately lower cost of funds as we meet or beat our return targets. Said another way, our ability to generate target net spreads and earnings growth remains intact. Despite lower on the margin fixed income NIERs. And I'll speak to the offsetting cost of funds dynamics in just a moment.

Turning to alternatives, we experienced a second consecutive quarter of particularly robust performance that saw broad-based strength across the portfolio and generated a 20% annualized NIER. Market tailwinds that emerged in November and December were helpful to a continued recovery in alt performance following a volatile first half of the year, along with strong underlying performance in several key holdings. Looking ahead, we expect alternatives to continue their strength in the near-term with two expected drivers in play. First, the impact of strong fourth quarter markets will provide a tailwind for approximately 50% of the alt portfolio, which is marked on a lagged basis.

Second the announced sale of AmeriHome, which Jim mentioned earlier is occurring at a price well above our year-end mark, and we expect this will drive approximately $175 million of incremental investment income that we will recognize during the first quarter. Considering these tailwinds and assuming markets hold their current levels, we would expect the first quarter alternative NIER to be 17% to 20% on an annualized basis. With a strong start, we estimate that our alternatives portfolio will generate a meaningfully better return in 2021 than our normalized 10% baseline expectation.

Moving next to cost of funds and starting with the cost of crediting component, our reported crediting rate remained relatively in line with the prior quarter, demonstrating our disciplined pricing, as well as prudent rate actions on retail in-force renewals. As we have discussed before, a growing institutional mix is one of the items that will push the crediting rate higher since essentially all the funding costs for PRT and funding agreements are reflected within cost of crediting, and each of these institutional channels have generated strong inflows.

Looking ahead, we expect cost of crediting to decline and be approximately 175 to 180 basis points in 2021, as further expected growth in these institutional channels is offset by new institutional inflows coming in at lower marginal cost, as well as continued rate actions on

deferred annuity renewals. The ultimate crediting rate in 2021 will be impacted by the rate environment and its impact on new business rates, as well as on business mix.

Turning to other liability costs, which represent the other component of cost of funds for our deferred annuities, recall that we observe quarterly fluctuations that can occur as a result of factors such as market movements or DAC amortization impacts from higher or lower gross profits. In the quarter, other liability costs decreased 15 basis points sequentially, due to a favorable benefit of about 13 basis points from equity market appreciation impacts and actuarial adjustments, which was partially offset by 4 basis points for higher DAC amortization from higher investment income.

Looking ahead, we expect other liability costs to be the component of cost of funds, where you will see the more favorable leverage, given our record organic growth at a lower marginal cost of funds than our in-force, the reinsurance of the Jackson block, which carries a lower other liability costs rate and higher mix of institutional business, we believe our go-forward baseline run rate for other liability costs is now approximately 80 basis points. Meaningfully lower than the 100 basis points we had indicated historically.

Shifting to our platform costs, our G&A expense ratio increased 4 basis points quarter-over-quarter, as we experienced some normalization from an unusually light third quarter. Part of this sequential increase was driven by higher long-term incentive compensation that is tied to our financial results, which improved amid our strong fourth quarter earnings and organic growth results. Looking ahead, we expect operating expenses will remain at or above the 25 basis point level in the near-term and then decline later in the year as we benefit from increasing scale.

Moving to taxes, as a reminder, our tax rate is a function of the proportion of income we generate in our Bermuda subs versus our U.S. subs. Within the strong operating income performance in the fourth quarter, largely driven by strength in alternatives, our tax rate came in at 12% for the year. Looking ahead, with a more normal income mix anticipated for 2021, we expect our tax rates should normalize around the 10% level. Given the focus investors have on the impact of the current low yield environment on future results, I'd like to offer some additional perspectives. When we originate new business, our pricing is based on achievable yields in the current environment, and then we set the cost of funds appropriately upon underwriting to achieve our target net spreads and returns.

The impact of lower new money yields on new inflows and runoff of higher yielding assets are almost entirely offset by lower cost of funds on new inflows and runoff of older business with higher cost of funds. Add to that our continued management actions, such as redeploying the Jackson portfolio, investing excess cash and resetting rates on legacy annuity business and we expect the cumulative effect of these items to modestly benefit our run rate for net investment spreads.

While 2020 turned out to be a much different year than we all initially anticipated, we continued to execute on our core strategy of growing very profitably. The record inflows we added in the past year will materialize in our earnings power in 2021 and beyond. When we consider the substantial size of our in-force block, the ongoing benefits of our organic growth engine and the opportunity for inorganic deals, we expect to generate solid earnings and book value growth in the year ahead.

With that, I'll turn the call back over to the operator and we will open the line for any of your questions.

Operator:
Thank you. At this time, if you would like to ask a question, please press star one 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. We also ask that you please limit yourself to one question and one follow up.

Our first question will come from the line of Ryan Krueger of KBW.

Ryan Krueger, KBW:
Hi, good morning. Could you comment on the lack of buyback in the quarter and your thoughts going forward, in particular, was it more driven by the – some recovery in your stock price or was it more of a function of the deployment opportunities organically and inorganically that you see?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Yeah, thanks Ryan, this is Jim. More the latter, we have four uses of capital as we've outlined to support organic, inorganic growth, ratings upgrades, and then stock buybacks; of those four, the most franchise enhancing is organic growth and the least is buybacks. Now, even at today's

prices, the returns are compelling from stock repurchases, but you're right, it was just a matter of – we put a lot of capital to work or supporting our record organic and inorganic deals this year. And since both of those, especially organic, are franchise enhancing, we think we should emphasize those, as opposed to emphasizing stock buybacks, but it is compelling value at these prices. So it's in the mix going forward, but we'd rather do things that enhance our franchise.

Ryan Krueger, KBW:
Thanks. And then can you provide any additional commentary on the type of inorganic opportunities that you're seeing in the market at this point.

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

Bill Wheeler, President:
Sure, Ryan. Look, we continue to be busy, there is a lot of activity and what we're seeing is when management teams restructure their business and free up capital, getting out of lower term businesses, even if they have to take a one-time loss, they're getting – their stocks are getting rewarded. And people get the joke, so there is a lot more of that kind of activity going on and we're in the middle of it. So, I wouldn't say it's any different than what we've sort of seen over the past year, it just seems to be more of the same.

Ryan Krueger, KBW:
Understood. Thank you.

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

Humphrey Lee, Dowling & Partners:
Good morning and thank you for taking my questions. I guess my first question is, you continue to talk about looking for potential rating upgrades, but given your kind of close to $8 billion of excess capital, like how much capital do you really need for potential upgrades?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Well, thanks for the question, Humphrey. Look, we think we've been operating the company to much higher than our current ratings levels. And I think the rating agencies agree, which is the support for my statement in my script, where I said, we expect ratings improvements and/or

outlook upgrades from all three rating agencies this year. So we're excited about that, and we're having our annual review discussions with the agencies over the next few days. I think they're very complimentary of everything we've done, the diversity of our different channels. So we're very optimistic about improvement. So yes, I think we have enough capital as we speak for upgrades and that's what we're expecting.

Humphrey Lee, Dowling & Partners:
Okay. And then my second question is regarding kind of the deposit outlook for 2021. In Bill's prepared remarks, you talked about, based on where you look right now, $25 billion of deposits in 2021. But I think you also mentioned that some of the pricing that you see in the marketplace seems to be irrational. Maybe just can you talk a little more about what you saw in the marketplace for both retail and for reinsurance and how we think about those two pieces into 2021?

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

Bill Wheeler, President:
Yes, sure Humphrey. Look, some guys are really trying to make a statement and the way they do that is by setting very high rates on MYGA business, which is sort of the commodity end of the market. So, we're literally seeing MYGA rates today that are offered to customers that are higher than our investment rate achievables, right. So, what that tells you is that business is being priced at breakeven or frankly maybe even at a loss on a spread basis. So it's, never mind what commission talks are and all that.

So you're seeing a lot of aggressive behavior in the MYGA business. Now, the good news is, it's pretty much limited to the MYGA business, which is sort of comes and goes, in terms of its competitiveness. So that has an impact on some part of our retail business. Where it really as an impact is on flow, and flow reinsurance, because a lot of our activity there is MYGA driven. Now will this persist? Usually it doesn't, usually the market returns to normal because people really can't keep doing this forever. And so I do expect some softness there.

And I do also think by the way that the other parts of our distribution, which are all very important and are at least as big as the retail business, are going to step up and have very good years, and where the pricing there is frankly very rational. The pension business, the funding

agreement business, I think they're both going to do very well this year. I think just like they did in the fourth quarter.

Humphrey Lee, Dowling & Partners:
So, should we think about the mix is it going to be skewed towards the institutional side for 2021?

Bill Wheeler, President:
I think so. If you think about last year, it was very well balanced, and I think it's going to be a little bit more skewed towards pension and funding agreements this year.

Humphrey Lee, Dowling & Partners:
Got it. I appreciate the color.

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

Andrew Kligerman, Credit Suisse:
Hey, good morning. A little follow-up on the M&A question, Bill. So, we saw two big transactions - Allstate and American Financial. Is the competitive environment heating up to a point where it's making it difficult for Athene to meet its return hurdles? Is it getting more challenging for you, despite the terrific pipeline? Maybe a little color around that?

Bill Wheeler, President:
Yes. Sure, Andrew. Look that's an important question, right. Is something really changed or is our competitive position, which has been very strong, is it now less differentiated? And look, we now have a number of competitors who have some sort of a platform with generally some kind of an offshore structure element to it, but I look at that – that's one piece of the puzzle, that's one step, and there are a lot of other pieces. In no particular order, we have higher ratings than most of these peers, we have significantly more available capital than almost anyone which allows us to go after opportunities others can't. We have a very strong organic distribution, most of these peers have either no organic distribution or frankly they're only selling fixed annuities in the IMO channel, right?

We're a solutions provider, which means, for example, we have the ability to analyze and take over VA blocks through our partner Venerable, and that's a very rare skill, which frankly is very

much in demand these days. We have scale and we have the lowest expense ratio in the industry, that's just as important as tax, in terms of our competitive positioning. And then finally, maybe most importantly, we have multiple asset generating platforms, which are – which create much more attractive returns at the same level of risk.

So, it's – I'd love to say this is just about, oh, you've got an offshore structure, and that's how you compete. The reality is, it's much more complicated than that, it's much harder and so execution with all those capabilities is important. So, I think it's – is it maybe a little more competitive than it was? Yes. Do we still operate at a significant competitive advantage? I think we do. But I think what sets us apart is we're also very disciplined about price, right. So, we don't chase stuff, we've said that many times and sort of have the track record to prove it. So, I think that's kind of the situation today in the market.

Andrew Kligerman, Credit Suisse:
So, upbeat looking into 2021 for closing on some big deals?

Bill Wheeler, President:
Yes, we are. We think there is a lot more to do. The restructuring that we've talked about for a few years here, I mean it's just finally starting to really pick up steam. So, I think there's going to be a lot more activity.

Andrew Kligerman, Credit Suisse:
Got it. And then just one technical one, as I kind of look at the operating expense ratio coming in at about, I don't know about 20 basis points in the second half of the year. And I know you use third parties to do a lot of your admin, but each year this operating expense ratio has come down. Is there any expectation that, that can continue to decline or does it, hold at 20? What's your thinking, Marty, around what that ratio is going to do as you grow assets?

Marty Klein, Chief Financial Officer:
Yes, Andrew, I think it does come down over time, no doubt about it. Because most of our infrastructure is kind of built out, and so in the channels that we operate in, we're just continuing to add business and there is really pretty low incremental cost. I mean, when we get onboard a new distributor in retail, for example, there is some kind of upfront cost typically, but by and large, we're pretty well built out. So, we'd expect to get more leverage over time by a reduced operating expense ratio, so we'd expect that to really continue.

And then obviously it just gets another boost even more when we do inorganic deals as we did in 2020 with the Jackson deal. But even with just our pretty strong organic growth, we'd expect our number to trend down over time. So, it was a little bit after the year, just because of like other companies less travel because of COVID, we had earlier, a little bit lower incentive comp in the third quarter, it boosted up a little bit in the fourth quarter - things like that. But over time we'd expect that to go down.

Andrew Kligerman, Credit Suisse:
And maybe even into the teens?

Marty Klein, Chief Financial Officer:
Yeah, I think two to three years out, depending on how much more quickly we grow, I think so.

Andrew Kligerman, Credit Suisse:
Great. Thanks a lot.

Marty Klein, Chief Financial Officer:
Yep.

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

Elyse Greenspan, Wells Fargo:
Hi, thanks. Good morning. My first question on the inorganic side, going back to the discussion there on the pipelines with M&A. In terms of just the really large transactions, if you've seen an increase in kind of jumbo or larger deals today within your pipeline versus what you would have said six to 12 months ago?

Bill Wheeler, President:
Well, is there an increase in jumbo? Probably not. I think what was – if I think about what sort of in the shop now, there is sort of a mix of smaller stuff, medium-sized stuff and there are still jumbo deals there. But it's – but I think it's probably a little more balanced.

Elyse Greenspan, Wells Fargo:
Okay. Thanks. And then my second question, you guys talked about the potential for ratings upgrades potentially from some of the agencies this year. And so, can you just talk about the impact that, that could have on your organic business trends specifically within the retail channel from a distribution standpoint and help us think if it could be additive to just deposits you could see whether in 2021 or perhaps a little longer-term, depending upon the time of the rating changes perhaps into 2022.

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

Bill Wheeler, President:
Yeah. So, it really helps all of our businesses, but I'll just talk about retail first. It allows us to get into the national warehouses and a bigger presence, where we have sort of been kept out because of our ratings. We're making progress there, but that'll accelerate, but that's probably a longer-term impact, not really this year's impact so much, but into 2022 it should matter. It helps immediately in the funding agreement business, it just, with better ratings it lowers the cost of funding and helps returns, that'll help immediately.

In the pension business and the reinsurance business and also inorganically, we already compete pretty well against a number of people because of our ratings, especially in reinsurance, but now it would become even more pronounced. And I think it would also help in the pension business, even though, now we're getting companies like General Electric, who are using us as counterparty. But I think there is still potential for improvement there. So, it really touches all of our businesses.

Elyse Greenspan, Wells Fargo:
And the $25 billion outlook that you gave for this year, that assumes no rating changes?

Bill Wheeler, President:
Well, not really. It doesn't – I think it’s depending on how significant they are, in terms of what the rating agencies say, do they just change outlooks? Do they really change ratings, it could have – its potential that there's upside there.

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

John Barnidge, Piper Sandler:
Thanks. Can you talk about maybe how we should be thinking about policyholder behavior prospectively? I ask that because the withdrawal rate increased about to 2.3% from 2.1% in the quarter.

Bill Wheeler, President:
Yes. A lot of this has to do with what's going on with different cohorts of business in terms of lapse rates and stuff. Our lapse rate behavior has been very steady and essentially what we've predicted. If you see though a substantial increase in the rates, and when I say substantial, I'm really talking about a 100 basis point move in underlying rates, we'll probably see more lapse activity.

But it's something that we model and stress test all the time to make sure that, even in a stress case that our returns are still going to be attractive. So I think it's going to be okay. And of course, the benefits of having 100 basis point higher rates, far outweigh, what's going to happen to lapses.

Marty Klein, Chief Financial Officer:
Hey, Bill and John, I would just note that for the most part this year, our lapses were within our range of expectations, but probably on the lower side – probably in the middle of the pack in the fourth quarter. One thing I'd note in the fourth quarter is you tend to see an uptick because of required minimum distributions. So, if you reflect that, it's kind of very much in line with our expectations.

John Barnidge, Piper Sandler:
Great. Thank you for your answers.

Operator:
Your next question comes from Brian Meredith of UBS.

Mike Ward, UBS:
Thanks guys. Good morning. This is Mike Ward on for Brian. I just had a question on Venerable since you guys are a shareholder. I was just wondering if you have maybe any perspective on their capacity, or their ambitions going forward and how it could actually benefit Athene? They've continued to grow by themselves and doing some deals, but just wondering if you could maybe frame their vision and could you theoretically become, or could they become an asset sourcer for you, to the extent they identify maybe a VA block that's then associated with a fixed block, is that how the relationship could work? Thanks.

Bill Wheeler, President:
Yes. From an M&A perspective, Mike, that's exactly right. Right, we – if you think about how the Jackson deal began, that was sort of the conversations we were having originally with both, it was a lot of VA conversations as well as fixed, but ultimately gravitated through a fixed deal. But I would say without Venerable, there at our side, I'm not sure we would have had the same kind of opportunity. And there will be other opportunities like that where – and if you think about the Voya deal, that's the situation we were in.

Venerable is actually – they've only done one deal, right beyond the original Voya deal, which is Equitable. There are a lot of companies out there who are looking for some kind of a VA solution. I think if you follow the industry, you've heard management teams say that, whether that comes with a fixed block or not, we hope it does, we obviously partner with them on looking at that sort of thing. The other thing I would just say is, Venerable has turned out to be a great alt for us. And in terms of its performance, this is – they're doing very well from a return perspective. And so that's part of the benefit as well.

Mike Ward, UBS:
Thanks. And then I know it's early, but I was just wondering about FASB's LDTI changes, but just wondering if you have any early estimates or maybe quantifications on the potential impact on your GAAP financials. And if not, do you think as the industry evaluates the impact, do you think it could serve as a catalyst for you guys, whether it's inorganic growth or flow reinsurance?

Bill Wheeler, President:
I don't think there's any doubt, we're hearing comments from management teams now about, okay – well, okay, that's a pretty big negative ceding commission but I'm going to record that anyway. When I take my LDTI charge, two years from now or 18 months from now or whatever

it's going to be. So, it's already factoring into their thinking, in terms of what they have to do, because they might as well, act now, get the capital release, and move forward. So, I feel like that's helping our business and that factor is probably only going to grow as a part of the M&A story.

Marty Klein, Chief Financial Officer:
I would just add that as far as we can tell, I think that the impact on us is probably going to be different and probably better for our financials than it is on others. I'd expect by and large there to be an equity hit for other insurance companies from it. And I don't think that's going to be the case with us so much. We're pretty far along with it. We're actually very far along with it. Because we actually, at one point were thinking about early adopting, I don't think we're going to do that at this point.

But in the back half of this year or early next, I think we will be in a position to disclose the impacts. But if you think about our rider reserves, as we've talked about in the past, we think they're pretty conservatively and realistically set. So, we don't think LDTI is going to have a really negative impact on us to an extent, but I think it's different for others as Bill mentioned.

Mike Ward, UBS:
Thanks guys.

Operator:
Your next question comes from the line of Tracy Benguigui of Barclays.

Tracy Benguigui, Barclays:
Thank you. Good morning. Are you seeing frothier pricing on block transactions, as alternative asset managers are trying to build their platforms for the first time, are they maybe paying a premium to do that? And how would you compete with that dynamic?

Bill Wheeler, President:
I don't think there's any doubt that there's been some frothy pricing in the second half of the year. And the real answer is we don't try to compete with it. We have a lot of advantages, but we're very disciplined about our – making sure we hit our returns. And if somebody really wants to get something, because they feel like 'I've got to get this capability' then so be it. We'll just move on to the next one. And I think the good news is, I think most of the major alternative asset

managers who are contemplating getting into this business have now done their deals. And now frankly, I'm expecting them to be much more rational competitors because they're good buyers generally in terms of transactions, and I suspect they're going to be a lot more disciplined going forward. And we still, as I said a little earlier, we still have a lot of advantages over those guys in the marketplace, for inorganic deals. So that's part of why I feel confident about our capabilities.

Tracy Benguigui, Barclays:
Great. Just want to touch on FIA. So that was like the hot product a number of years ago. And it seems like folks are really focusing more on structured annuities. So, I'm just wondering your market standing on FIAs. Is it more your contrarian view of that product or do you still think the pricing remains attractive and then maybe just to tag on to that, why you're not seeing the same traction on the structured annuity side or products that you've also recently entered?

Bill Wheeler, President:
Yes. So, it's a good question. So yes, FIAs had a soft year after a lot of growth after being sort of the fastest product category for the last five years. And that has a lot to do with the IMO channel where most FIAs are sold, having such a soft year because of the pandemic. But I do – it's pretty clear that IMO distributors are now kind of managing around the pandemic and we're seeing that – we're seeing FIA sales starting to recover even in the fourth quarter.

And so that's good. The structured products you mentioned, which we often call those RILAs. Okay, RILAs are essentially another form of an indexed annuity. It's the same product. They're categorized as VAs because it's a registered product, but they're really a fixed annuity product. And another phenomenon in the industry, is that many insurance carriers who used to sell a lot of VA are now trying to transition to a RILA product. And a lot of producers who used to sell VA are selling RILA product. And this is about where you are in channel. This is why ratings are important, because a lot of those kinds of VA, former VA sellers, producers, sit at national wire houses and they're the ones making that transition. And they're oftentimes selling, the carrier that used to sell them VA they're not selling RILA.

And so, our RILA sales are not where they we want them to be because that's been the hottest growth area of what I would call the indexed annuity business. And we have a good product. It's very competitive in terms of pricing and features. But we got to get it in the right channels. And that's an important goal for us over the next couple of years.

Tracy Benguigui, Barclays:
Thank you.

Operator:
Your next question comes from the line of Lee Cooperman of Omega Family Office.

Lee Cooperman, Omega Family Office:
Thank you. And let me first congratulate you guys on an excellent performance. And I'd also say before I pose my question, far be it from me to advise you, because I think you guys are smart, but I'd like to pose a question.

You're 83% of book value, you've compounded book, you said at 16% the last number of years. So, your performance is not reflected the stock price. Have you thought about a cash dividend as an indication from management as to your confidence in the recurring nature of your earning power? The way I look at it, if you had a 10% payout or $1 dividend, you would be yielding well in excess of the market yield, and you would have 90% of your capital retained to finance future growth. What do you think about that?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Thanks, Lee. Thanks for the nice comment.

Lee Cooperman, Omega Family Office:
Deserved.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Good to talk to you again. Look, we're a growth company – you've seen how quickly we've grown.

Lee Cooperman, Omega Family Office:
So is Microsoft, it has a yield.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
No, I hear you. No problem, I understand. But we think there's better use for our capital than returning some of the shareholder capital back to them which is consistent with our comment on stock buyback. It's one of the uses we have for capital, but it's not franchise enhancing like the

other three uses we have for it are. And to some extent, I've viewed dividends the same way. I mean, our operating performance speaks for itself. I agree we're way undervalued in our stock price. And we'll try to figure out how best to achieve value in the stock price. That's a focus of ours every day, but right now, I don't think even a modest dividend is in the cards for us. But I hear the point and appreciate the comment.

Lee Cooperman, Omega Family Office:
Well, not to kind of belabor the point, but you don't want to buy back stock because you think that organic and acquisition opportunities are superior. The market clearly doesn't believe in your business model, which is why it's being priced the way it's priced. So a way of evidencing confidence in the recurring nature of your earnings in a business that is volatile is to have a consistent dividend. And I think that $1 dividend would be a 2.1% yield, at the price that you're at, which would be I think 60 basis points ahead of the market, and a statement about your confidence about the outlook and it wouldn't change anything. The way to look at it, just take this capital gain you have on the sale of the asset, it's less than that. For every share, you buy back, you're buying back 50 years of dividends, so we're talking about a modest approach. But anyway, I hear you. I'm very comfortable with the way you're running the company, just a suggestion. Thank you very much.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
No, I hear you, Lee. I appreciate the comments. I would just say, as far as evidence of our confidence, we just look at our track record since we started 12 years ago. And as you say, growing book value at a 16% per year rate every year, I mean, that's far in excess to the insurance industry. And just that alone, you would think our multiple would be far different than it is now.

Lee Cooperman, Omega Family Office:
No, but you guys…

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Already by looking at forward earnings, it should be way higher than it is, you're right.

Lee Cooperman, Omega Family Office:
So, you're smart guys, put yourself into a room, sit down and discuss 'why are we selling where we're selling?' And the conclusion is people don't have confidence in the recurring nature of your

earnings, or the nature of the business. So, the one way to underscore your confidence in the nature of the business is through a recurring dividend. Enough said, but congratulations, you're doing a great job.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
I hear you. Everything's on the table, but we're pretty comfortable with our strategy, but always looking for enhancements. I appreciate your confidence in us, Lee, as a shareholder.

Operator:
Ladies and gentlemen, we have reached the allotted time for questions and answers. I'll now return the call to Noah Gunn for any additional or closing comments.

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

Operator:
This does conclude today's Athene Holdings fourth quarter and full year 2020 earnings call and webcast. Please disconnect your lines at this time and have a wonderful day.

END