

November 3, 2020
Athene Holding (ATH)
Q3 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

Elyse Greenspan

Analyst, Wells Fargo

Jimmy Bhullar

Analyst, JP Morgan

Mike Ward

Analyst, UBS

Suneet Kamath

Analyst, Citi

ATHENE HOLDING LTD.
Q3 2020 Earnings Call
Moderator: Noah Gunn, Head of Investor Relations
November 3, 2020
10:00 AM ET

Operator:

Good morning. My name is Crystal, and I will be your conference operator today. At this time, I would like to welcome everyone to the Athene Third 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 speaker's remarks, there will be a question-and-answer session. If you would like to ask a question, please press "star", "one" on your touch tone phone. If you should need assistance at any time, please press the "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 third 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 will 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.

With that, 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 on this election day in the U. S. and for your continued interest in Athene. We are incredibly proud of the strategic progress we have made in building our business and generating a track record of consistent excellence.

With tremendous execution on both sides of the balance sheet this year. Our business is firing on all cylinders. Our third quarter results demonstrate that Athene differentiated investment spread model is incredibly resilient and getting stronger through this period of market dislocation and uncertainty. We remain extremely well capitalized with approximately \$14.5 billion of regulatory capital. And in under levered clean balance sheet. Since our founding, we've emphasized the importance of holding excess capital with a view that profitable growth is most available when capital is most scarce.

Others in the industry without our significant deployable capital and strategic asset management advantage are being forced to pull back from new business origination. This dynamic allowed us to generate consecutive quarters of record organic growth at very strong returns. As we've said many times, we are incentivized by profitability at Athene not volume. By simply executing our business strategy, which includes maintaining our pricing discipline. Pivoting opportunistically to deploy capital across our funding channels. We were able to generate organic volumes of more than \$7 billion at returns in excess of our targets.

While we are diligently executing in our day-to-day organic channels, we are also looking for additional opportunities to act as a solutions provider amid the ongoing restructuring across the insurance industry. The \$29 billion transaction we executed with Jackson National in June is squarely in line with this objective. And I am confident we will continue to serve as a solutions provider for the industry for years to come.

The full power of our business model is realized when we concurrently execute organically and inorganically as we have done this year. Through October, we have exceeded \$50 billion of combined gross organic and inorganic growth in 2020. Our best year ever. Generating this level of growth with strong profitability, through this extraordinary period is a remarkable achievement.

We are intently focused on maximizing earnings, while maintaining our risk discipline. To this end we purchased a record \$14 billion of investment in the third quarter. At a yield premium for fixed income assets of nearly 60 basis points, net of fees, to the BBB corporate bond index. This outperformance demonstrates the alpha generating nature of our active investment management partnership with Apollo. Similar to last quarter, our activity can be summarized across three primary buckets.

First, despite the continued decline in yields we saw in the third quarter, we are still seeing attractive enough investable spreads in public and private corporate bonds, which accounted for about 65% of our purchases, allowing us to transact quickly and in size.

Second, we are seeing attractive opportunities destructor securities, such as CLOs, RMVS and Asset backs. That accounted for nearly 20% of our purchases. As a reminder, we focus on the senior investment grade tranches of these structured securities. Which benefits from significant credit enhancement and enable us to pick up a substantial amount of 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 come up through our affiliation with Apollo. This quarter, we participated in an Apollo led consortium to form a real estate investment partnership for assets owned by the Abu Dhabi national oil company (ADNOC). Athene deployed \$1.4 billion of capital into this investment opportunity for long-term credit-tenant lease assets, with a duration of more than 10 years at an attractive yield with a AA+ rated counterparty – characteristics which match very well with our liability profile.

We are presently focused on two in-house priorities to drive forward earnings power.

First, we continue to make progress on 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 mid-October we've reinvested more than \$10 billion, or more than 40% of the volumes in our redeployment plan. Successfully raising the yield on the portfolio by approximately 90 basis points in just over four months. Our redeployment activity will be largely complete by the middle of next year. We underwrote the transaction to our attractive target returns for inorganic growth. And in line with our prior communication, we expect to deliver meaningful earnings accretion when our efforts are complete.

Second, we are quickly reducing our elevated cash balance of approximately \$6.5 billion that we held a quarter end. We expect to return our cash level to a more normalized on-balance sheet level of approximately \$2 billion in the coming weeks. Deploying excess cash balances will increase annualized investment income by approximately a \$135 million. Which should increase our overall fixed income yield by approximately 9 basis points on the run-rate basis.

Overall, the credit quality of Athene's investment portfolio has remained strong. We have experienced de minimis impairments of 2 basis points in our investment portfolio year-to-date. And our current CECL reserves already reflect the base case recession. Our portfolio has experienced minimal downgrade year-to-date. Which net of upgrades has resulted in only 16 point to drag on RBC ratios. Which remain very strong in the high-400's including capital at the

holding company. Importantly, we continue to expect that any potential credit losses resulting from the current environment 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, are also 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 investment in high-performing strategic operating businesses. Our alternates portfolio has exhibited less volatility than public markets in the first nine months of 2020 given our strategy. I am pleased to report that the portfolio is performing very well. Appreciating more than 10% over the past two quarters or 21% annualized. Driving our year-to-date returns into positive territory, following the sharp decline felt in the first quarter.

In the third quarter, we saw a broad-based strength across the portfolio which benefitted from two dynamics. First, the lagged effect of re-bounding markets in the second quarter being realized in the third quarter as expected. Investments marked on a lag basis comprising approximately 60% of the portfolio generated a 14% annualized return. Second, approximately 40% of our portfolio which is marked on a real-time basis performs very well generating a 26% annualized net return in the quarter.

Within that result is AmeriHome. Our largest single alternative investment which delivered a particularly strong quarter appreciating 46% on an annualized basis. We benefited from the continued strong operating performance of its business, which has been driven by elevated origination and refinanced volumes from low interest rates. As the largest equity owner of AmeriHome, we fully support the evolution and continued success of its business as it seeks to seek to access additional sources of capital.

Another strong contributor in the third quarter Athora, which is viewed by some as early stage Athene in continental Europe, produced its best quarter of income ever. If you recall Athora closed its transformative acquisition of VIVAT back in April, and in following an additional capital raise around that event, the valuation of the company grew. We look forward remaining partnered with the Athora team going forward, as they pursue additional growth.

Finally, I'd like to highlight our investment in Venerable. The Venerable annuity company created as part of our reinsurance transaction we did with Voya in 2018. The business has been performing very well to date, generating capital, and the team has been actively looking for attractive in organic opportunities. Last week, Venerable announced its first strategic transaction with Equitable Holdings that will double the size of its managed business. This

milestone transaction is a positive development that will drive meaningful value creation for its platform going forward.

Now I'd like to turn the call over to Bill to discuss our liability origination activities.

Bill Wheeler, President:

Thanks, Jim. As you can see from our results, our organic growth engine continued to perform very strongly in the third quarter despite a fragile economic environment and historically low interest rates. These results continue to demonstrate the strength and resilience of our differentiated multi-channel distribution model. As Jim discussed, we generated record deposits for the second consecutive quarter totaling \$7.4 billion.

On an aggregate basis, underwritten returns on the quarter's activity came in well above our targets. As many competitors continue to be constrained by a challenging operating backdrop or the desire to conserve capital, Athene remains a source of strength in the marketplace, and we were awarded with profitable growth. Turning to each of the channels, in Retail, we generated \$2.5 billion of deposits in the quarter up nearly 28% year-over-year and 38% sequentially, representing a quarterly record for the channel.

While industry FIA sales have moderated significantly year-to-date, we remain well-positioned with our numerous competitive advantages, that are driving a much different results for us than others are experiencing. According to LIMRA, Athene placed first for fixed indexed annuity industry sales in the second quarter and we believe our strong third quarter results will place us in a similar position.

Since we prioritize returns over volume, and do not chase market share, our ranking was particularly noteworthy considering that the competitor we displace that led industry FIA sales every quarter for 11 years. Our fixed rate annuities or MYGA business, generated strong sales and drove approximately one-third of our activity in the third quarter.

We're on pace to have 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 position on leading digital platforms. As a point of reference, nearly 50% of our total retail annuity sales in the first nine months of 2020, were generated through the bank and broker dealer channels, which compared to less than 30% in the first nine months of 2019.

While this year's results have been partially driven by pandemic-related disruption in the IMO channel, we believe the distribution inroads we've made within financial institutions are very meaningful. Expanding distribution of financial institutions, particularly in 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.

In flow reinsurance, record quarterly deposits of \$2.3 billion in the third quarter came in more than three-fold higher than the year-ago period. The strong result was driven by another quarter of outsized retailer annuity sales from key partners, particularly those with a strong digital presence. In the face of tightening spreads, our differentiated asset management and sourcing capabilities allowed us to offer competitive pricing, which drove particularly strong growth at attractive returns.

As we announced on our prior call, we entered the Japanese fixed annuity market at the end of July, through a fixed annuity flow reinsurance partnership with a large Japanese financial institution. We are pleased to report that this new relationship is seeing good early momentum with steady volumes in the third quarter, and we believe it has the potential to contribute even more to future periods.

While we are very pleased with the strong third quarter results for our flow business, as you know, quarterly volumes can fluctuate based on counterparty appetite and quota share levels. Given some of the visibility we have into our activities of our clients. We expect flow reinsurance volumes will remain healthy, but moderate by approximately 50% of the near term following consecutive quarters of record setting activity.

Turning to the institutional business, we generated \$2.6 billion of deposits sourced through funding agreements. The quarter's activity was driven by funding agreements issued in three different currencies, including one in US dollars, our second euro-denominated issuance, and our first Canadian dollar issuance. While all our non-USD activity is being 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 continue to tighten in the third quarter, we took advantage of the opportunity to issue and achieve very attractive returns. We remain active thus far in the fourth quarter with two insurances in October, including our first Swiss Franc denominated note, as well as one in U. S. dollars totaling nearly \$900 million combined.

In PRT, activity across the industry was quiet during the quarter, as expected, but it has increased sharply as we ahead in the year-end. So far in the fourth quarter, we have closed several transactions totaling \$1.6 billion and we will evaluate additional transactions that are expected to come to market in November and December. Putting it all together, with more than \$18 billion of organic deposits year-to date, plus the known fourth quarter activity within institutional, we will exceed our previously increased guidance of \$20 billion in organic volume in 2020. In the

context of today's economic backdrop and industry fixed ability sales trends, for us to generate a record year of volume underwritten to what which also may be record returns, is a truly remarkable result.

On the inorganic front, following the close of the successful reinsurance transaction with Jackson in June. We have been busy discussing other potential win-win transactions with various counterparties, including American Equity Life as was as publicized. While we saw the potential to consummated interactive transaction for all parties involved and our AEL proposal, we have said many times that execution is ultimately depended on our counterparty's willingness to transact.

Importantly, we have \$7.6 billion of deployable capital available, net of what is earmarked for 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 over the near term. A 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 now like to turn the call over to Marty who will discuss our financial results.

Marty Klein, Chief Financial Officer:

Thanks, Bill, and good morning everybody. In the context of our financial results, I'd like to echo a point that Jim expressed at the start of the call. Which is that our operating performance demonstrates a track record of consistent excellence over a long period of time and through a variety of macroeconomic conditions.

For the third quarter, we reported GAAP net income of \$622 million or \$3.16 per diluted share. Our Adjusted Operating Income available to common shareholders for the quarter was \$302 million or a \$1.53 per share. Excluding notable items of \$27 million, as well as our strategic Apollo investment total adjusted operating income was \$356 million or \$2.10 per share.

Retirement Services adjusted operating income excluding notables was \$334 million, resulting in an adjusted operating ROE excluding notables of 19% 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 which meets or exceeds our target returns.

Our third quarter results also benefited from strong performance on our alternative investments as Jim discussed earlier. 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 development that can cause it to move.

Quarter-over-quarter impacts that cost the fixed NIER to decline were driven by expected factors, including lower floating rate income and the full quarter impact of onboarding the Jackson asset portfolio. Partially offsetting these items was a rebound in bond call income from low second quarter levels, as well as the one-time benefit from an adjustment on a derivative collateral account.

Given the various levers that can move to fixed income NIER, let me walk you through the trends we expect to emerge in the fourth quarter and beyond. Our fourth quarter earnings will benefit from two items, deploying excess cash and continued redeployment of the Jackson portfolio. Our efforts for both these items will ultimately be depended on the investment opportunities we can source, and the overarching credit spread environment.

We saw a continued tightening in the third quarter, and we ended the quarter with more cash on hand, due in part to record organic deposits. As a result, we expect the fixed NIER to remain around the third quarter rate or approximately 3.6% in the fourth quarter. While on-the-margin investment yields face pressure in the current rate and spread environment, it's very important to note that the new business volumes we're writing, in aggregate, exceed our return targets, because the lower on-the-margin cost of funds.

Turning to alternatives, as we expected, we saw a benefit from the investments marked on a lagged basis reflecting a market rebound from the second quarter. We also saw very strong performance in a portion of our portfolio marked on a real-time basis, which is driven by strength in our investments in AmeriHome, Athora and Catalina, among others.

If markets hold their current levels, and given the benefits of lag to income from the third quarter, we estimate that our alternates portfolio will generate another strong result in the fourth quarter – with a net investment or grade of 11-13%. Moving next to cost of crediting, our reported rate increased seven basis points quarter-over-quarter which was expected given the full quarter impact of onboarding the Jackson reserves.

As we've mentioned previously, the Jackson liabilities have a somewhat higher crediting rate than our in-force, though they also have a meaningfully lower level of other liability costs. The increase in the cost of crediting was partially offset by prudent rate actions on retail in-force renewals. We currently expect cost of crediting to remain around current levels between a 180-

185 basis points. As continued rate actions in deferred annuities are somewhat offset by further expected growth in institutional, particularly PRT, which bears a relatively higher cost within the crediting line.

Turning to other liability costs, which represent the other side of the cost of funds for our deferred annuities, we observe quarterly fluctuations that can occur as a result of market movements or actuarial adjustments, as well as the impact of annual assumption on locking. In the third quarter, other liability costs had a modest favorable benefit from unlocking.

We prudently reduced our long-term investment yield and interest rate assumptions with that impact offset by favorable actuarial experience and policies with income writers. Our long-term NIER now contemplates grading to a rate consistent with the 10-year treasury assumption of approximately 2.65% in eight years. We strive to keep our assumptions updated in line with the interest rate environment and as experience emerges.

In a quarter, other liability costs increased 25 basis points sequentially, primarily due to a couple of factors including normalization from a particularly low second quarter results. As well as greater debt amortization resulting from higher gross profits. You'll recall that when we have higher levels of profitability our debt amortization accelerates, and it decelerates if we have lower levels of profitability.

Quarterly swings of investment income from alternatives can be a driver of higher or lower other liability costs in a given period as we saw this quarter.

Shifting to our platform costs, our G&A expense ratio fell 6 basis points quarter-over-quarter as that line benefited from the full quarter impact of Jackson onboarding to our highly scalable platform, as well as lower legal expenses and some long-term incentive compensation.

While we expect some normalization of this quarter's larger sequential decline, the ratio of G&A dollars to our assets has been steadily declining over time, and we expect this long-term trend continue as we realize further benefits of scale.

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 strong operating income performance in the third quarter, largely driven by strength in alternatives, our tax rate came in a bit better than our are mid-teens expectations. With stronger earnings expected in the back half of the year offsetting a lower first half, we now expect our tax rate may settle into the low teens territory for the full year 2020.

Concluding with capital, Athene remains very well positioned with \$14.5 billion of regulatory capital and \$7.6 billion of total deployable capital, which has comprised of \$3.2 billion of excess equity capital, \$2.6 billion of untapped debt capacity and \$1.8 billion of available undrawn third party capital remaining for ACRA. We expected to put our capital in line with the four primary uses we've outlined – generating strong organic growth, closing additional inorganic opportunities, supporting ratings upgrades and opportunistically executing accretive share repurchases.

As we head to 2021, our in-force business is expected to generate about \$2 billion of capital from earnings and run off, and we expect to deploy about the same amount of capital into new organic business in asset redeployment. In addition, it's very clear to us that our shares remain undervalued relative to our strong operating performance, and so we plan to continue utilizing share repurchases as an instrument to generate shareholder value.

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

Operator:

At this time, if you would like to ask a question please press “star”, “one” on your touch tone phone. If you wish to remove yourself from 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 appreciate all of your interest and questions in order to ensure everyone receives their turn. We ask that you please limit yourself to one question on the first round and hop back in the queue if you would like to have a follow up question. One moment please for your first question.

And your first question comes from the line of Ryan Krueger with KBW.

Ryan Krueger, KBW:

Hi, good morning. I guess when you put together all the different pieces of your outlook, last quarter you talked about earning an ROA in 2021 that was similar to 2019. I was hoping you could give an update on that and if you still view that range as achievable next year.

Marty Klein, Chief Financial Officer:

Thanks for your question, Ryan. Yeah, I think we're still on track for that. You know I think that there's a lot of focus that people have on the fixed income NIER. And I think sometimes they overlook some of the other line items that impact our overall profitability. In a lower rate environment, obviously, it does put pressure on our fixed income NIER, but we're originating liabilities that significantly lower overall cost of funds.

I would note that, since the second quarter - second and third quarter together - we probably originated about \$25 billion of liabilities, with an overall cost of funds maybe about 50 basis points lower than what we reported last year in our operating results. So that's very beneficial, and we also expect our tax rate to kind of normalize and get further expense reductions.

So yeah, we feel very good about next year and, frankly, about the very profitable business we put on our books this year. You know we'll provide line item guidance at maybe some future time, but I would just say at this point as we head towards 2021, we would expect operating income, excluding our stake in Apollo, to exceed \$8 a share.

Operator:

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

Erik Bass, Autonomous Research:

Can you discuss the competitive landscape in flow reinsurance? It sounds like there are a number of new competitors entering the market, but how significant are the barriers to entry in practice?

And do you see much risk to your volumes going forward?

Bill Wheeler, President:

Hi, Erik. So, there have been some competitors who have made some inroads. I mean, it was sort of inevitable. We used to have almost 100% of the market to ourselves. So, it's not quite that great. And obviously, our volumes far outweigh theirs, and I don't expect that to change. The competitive landscape, I guess barriers to entry really have to do with capital and with ratings. I mean, obviously these people are picking a counterparty that they expect to do business with for many years. And when we get new or primary companies, who are kind of conducting sort of a competitive process to pick a counterparty, we find that some people are very aggressive, but they're also the kinds of companies that you would think twice about in terms of a somebody for the long run. They obviously are hungry, but they – but it would make you nervous.

We just went through a review process with a very nice, very high-profile carrier who, and we won the auction process, the business won't start until late in 2021. But that was a very competitive process, and we still won it. So, I guess I would say, track record, ratings, obviously, our current market position, all are going to have a big impact going forward. And I sort of, and I would say there, if you think about other potential counterparties, there is more still in the pipeline. So, to the extent, volumes moderate, it's not really going to be because of competitive pressures. It's really just going to be what's going on at the primary carriers in terms of their performance or how they're participating in the fixed annuity market.

Erik Bass, Autonomous Research:

Thank you. And can you just remind us how much flow reinsurance you have with AEL? And is any of that at risk, given its announced partnerships and plans to launch its own offshore reinsurer?

Bill Wheeler, President:

Well, we historically had a good relationship with them and have built over a decent size position. I don't think that's at risk, but we haven't received significant reinsurance flows from AEL for a number of years.

Operator:

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

Tom Gallagher, Evercore:

I guess a follow-up on the AEL-Mass Mutual situation. Can you comment at all what your view is from here? I assume it's – you're moving on given what AEL's announced, but just curious if you have a view on that.

And then also in term, you mentioned, Bill, I think numerous other opportunities to deploy capital. Should we expect them to be more of the Jackson variety – kind of smaller? Or is it maybe midsized transactions? Or are there potentially larger ones?

I think there's been some high-profile, other announcements made across the industry that could be larger. Would you be looking at potentially larger deals?

Bill Wheeler, President:

So first, with regard to AEL, yes, we are moving on. The Board – their Board – has decided to follow a different path, and we respect that, and we're going to move on.

In terms of deals, you just said, midsized deals like Jackson. Remember Jackson was the largest, I think in terms of assets, reinsurance deal ever done - and we haven't found a bigger one. So that was big. Are there bigger ones than that? Yes, there are. You just have to pay attention to what's going on in the newspaper to figure that out. But I would say, we'll look at all kinds. We've talked about this many times that at the small end of the market, it tends to be more competitive. But interestingly, if you look at what we're working on now, there's some smaller deals where frankly, there doesn't appear to be a lot of competition, and I guess, it may be that's because of the market environment, where we think we can get our target returns.

So, even relatively smaller stuff, we will look at. It's all, frankly, in our minds about where we can earn the returns we need to be successful. And so, it could be some smaller deals, could be

more Jackson-sized deals, and yes, there is potential for even larger transactions. The reality is that our corporate development group is very busy, and I expect us to be active.

Operator:

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

Andrew Kligerman, Credit Suisse:

Okay. I'm just a little kind of getting my composure here because that comment that you're going to move on is somewhat surprising. So, I'll just ask a basic question about the NIER and this 3.6% that it kind of settled in around, and maybe you could just give a little color on the new money rates that you're seeing, and with the Jackson kind of transitioning of the portfolio, can you stay at 3.6% or get a little higher as we get into 2021?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

I'll start, and then I'll let Marty finish up. Andrew, hi. Look on the margin right now on a 10-year NIER net investment earned rate spout on a gross basis about 4%. After fees and assumed losses is up to 3.60%, somewhere around that range. The Jackson redeployment is going very well. We're quite a bit ahead of volume pace. Yields are right now a little less than we had forecasted in our redeployment plan, given the drop in yields in general, since we did Jackson. But I think what's really going to true it up to where we need it to be to bake in the economics that were underwritten on the deal are allocations of alts and private credit into that portfolio that we haven't done yet. And we got a very robust pipeline of both, in fairly short order. So, we think there's a lot of upside there from what we've achieved so far. But Marty, anything else you want to add?

Marty Klein, Chief Financial Officer:

Yes, I would just note, Andrew, that in addition to thinking about the fixed income NIER, it's obviously, the other flip side of low interest rates is that there's low cost of funds. So, as I had said earlier, our cost of funds and what we're doing these days is like in a low-tvos, like 240 or something like that. So that compares still very favorably. What is still even now a lower yield that we get. Heading into next year, again, we'll in the future call, give more guidance, but yes, I think there's a few basis points of upside from this kind of 360 level. We expect, as the environment normalizes, we expect to carry less cash and are still going to have some cash drag in this quarter, the fourth quarter, that we're going to work down, as Jim said, to a couple of billion by the end of the year. And we expect to operate at that level as the economy normalizes and the Jackson redeployment will help. That's to some extent offset by some on the margin stuff we're doing. But again, most of the on the margin assets are going against new liabilities that, at least the last couple of quarters, have been extremely profitable.

Andrew Kligerman, Credit Suisse:

One last thing, just to follow on that last question, where Bill had said that, everything depends on a counterparty's willingness to do transactions. Could you potentially come back and make it more compelling to make that counterparty willing? Or you're just moving on like you said?

Bill Wheeler, President:

Well, look, we made what we thought was a very attractive offer. And I don't think anybody would debate that, really, except maybe AEL's board. And so, look, that didn't sway them from the path they want to stay on. And it just strikes me that it's prudent to move forward.

Operator:

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

Humphrey Lee, Dowling & Partners:

Good morning and thank you for taking my question. I guess, this is a quick clarification question. So, Marty said in terms of the earnings outlook for 2021, is \$8 per share, excluding Apollo. Do you mean excluding the Apollo stock appreciation performance or do you refer to the ex. AOG meaning kind of stripping out the shares issued to Apollo the way that you show in the slide deck?

Marty Klein, Chief Financial Officer:

Yes. I mean, stripping out the earnings impact that we get from Apollo.

Humphrey Lee, Dowling & Partners:

But that is including the share count or without the share count from the shares issued to Apollo?

Marty Klein, Chief Financial Officer:

I believe including the current share account, but just excluding the earnings impact.

Operator:

Your next question comes from the line of John Barnidge with Piper Sandler.

John Barnidge, Piper Sandler:

Thank you very much. The UK and Japan funding agreement business has to be coming online quickly. Can you talk about where you see that growing to in the near and intermediate term and then opportunities for further product in those markets?

Bill Wheeler, President:

Sure, John. So just to be clear, we're acting as a reinsurer of bulk annuity business in the UK, we have printed one deal. Early in the first part of this year was fairly quiet, but just like in the U.S., things are picking up a lot in the UK now. And so, we're participating in other situations as sort

of helping the primary carriers compete for business and we're doing that with several other carriers, but so far, we haven't won anything. And, so the nature of this reinsurance business is it's a little hit or miss so - I would guess I would say, we're hoping that this gets to be crudely \$2 billion a year kind of volumes. But we'll see, you could do that on one deal, frankly.

With regard to Japan, I think we had said previously, we expect us to be sort of \$500 million of volume, this one flow relationship a year. I think that's right, that's still a good number. But there are other potential relationships. And so that, too, could easily be in the near term of \$2 billion a year kind of a run rate. We are having discussions with other potential partners in Japan to have flow reinsurance arrangements with them as well. So, I think both of those are going to be growing markets for us and where we can earn good returns.

John Barnidge, Piper Sandler:

Fantastic. And then a follow-up on policyholder behavior withdrawal activity with the lowest rate since 4Q 2019, do you believe it'll persist with these levels until maybe the pandemic in the rear-view mirror? Thank you.

Bill Wheeler, President:

Well, it really has to do with interest rates. So, I think with interest rates being so low, I don't think policyholders have many other options, frankly, that look attractive to them at the moment. What a lot of this is just frankly about is, I would say, a much longer term sort of view of policyholder behavior based on the track record over a number of years, so that's really not necessarily pandemic related. I think it has a lot more to do with just the general decline in interest rates and therefore, reducing their options for other things to do with their money. So, I feel like this sort of policyholder behavior will probably persist.

Operator:

Your next question comes from the line of Suneet Kamath with Citi.

Suneet Kamath, Citi:

Thanks. Good morning. I want to circle back to the \$14 billion you referenced in the slide deck of incremental investments where you're generating spreads, I guess, 60 basis points above BBB. I think he had a similar disclosure last quarter where that number was around \$11 billion. So, I'm just curious, first, is there a limit in terms of how much of these assets you can identify? And then relatedly, can you provide some color on the 65% that's public and private corporate? I'm just trying to understand why those are truly differentiated and if there's an issue – if there's ability for other insurance companies to be able to pursue those types of investments? Thanks.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Yes. Sure, Suneet. Thanks for the question. So, I think the point of mentioning the \$14 billion is just to show how active in size we are in investing all the flow and liability cash flow that we're generating. And we've really ramped up the Apollo Insurance Solutions Group aspects of our business. Is there a limit to it? Look, we have a very scalable model both on the liability side and the asset side, it's being demonstrated as we speak, given our growth. So, I'm not going to say there's a limit. I mean, it's difficult to find the alpha-generating assets and that's why we said, look, 65% of the \$14 billion were in corporates, both public and private. I think to answer your second question the privates are more differentiated than the publics. There's more alpha in the privates. We're not buying the index in the publics, but we're being smart about names we buy, etc., but there's just less alpha there, it's a very liquid efficiently priced market.

So other than being smart about industries, focusing on defensive industries, picking the right names and publics, yes, most companies do that. But we significantly are ramping up our privates. We've added to staff and portfolio managers across the Apollo platform. And they're doing a very good job. But the real call out, I think, and the big point was last quarter, I think we mentioned the MFA re-transaction that we did, this quarter we're mentioning the ADNOC transaction. There's others we're not mentioning, and I think the real differentiator for Athene is Apollo's ability to source directly senior secured assets with downside protection across the globe. The deal we mentioned here was a Middle Eastern deal, and we're doing more and more outside the U.S., while still increasing significantly our U.S. activity on assets.

So that's a real differentiator for Athene versus others. I don't think anyone else, I don't know, another firm that's investing the time and money that Apollo has in ramping up direct origination capabilities, ability to buy platforms and source ongoing assets that way. We're bypassing the middleman and that's what gives rise to the better – the main reason our investment results are better than others is because of that activity. And it's building and 2021 will be significantly more than we did in 2020 of this. So that I don't think is replicable right now, but the real liquid efficiently priced sectors, yes, others can do that.

Operator:

Your next question comes from the line of Jimmy Bhullar with JPMorgan.

Jimmy Bhullar, JPMorgan:

Hi. Thanks. Good morning. First, I just had a question on buybacks. You bought a decent amount of stock in 3Q and I guess, part of it is you have capital and part of it's the stock valuations depressed, and it's still around the same level, its recovered a little bit today, but still around the same level as it was in 3Q and pretty depressed versus book value. So where do buybacks fall in your sort of priority of deploying capital versus organic sales and deal opportunities?

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Yes. Thanks, Jimmy. This is Jim. So, we've – just to remind you - we've bought back over \$400 million of stock this year. So pretty aggressive. No doubt, we absolutely understand how compelling the value is given where the stock is trading. I mean, under 4x earnings, I mean, it's ridiculous. So that is one of using capital to buy back stock, as Marty said, is one of the four ways we deploy capital. The other three being supporting our organic growth, our inorganic growth, and then holding capital for ratings upgrades. All four of those are compellingly accretive for shareholder value. So, we will on a go forward basis continue to pivot across those different ways to use capital, what we think is the best opportunity. We expect to do all of it in some amount.

I'll just remind you that as you know, that buying back shares is not franchise enhancing, supporting organic and inorganic growth is and getting ratings upgrades, which we're very optimistic we're going to be getting here in relatively short order for more than one rating agency is also franchise enhancing. So, I think, everything else equal, it never is. We would err on the side of supporting the first three more so than stock buybacks, but stock buy backs has a place, it has in the past, it will in the future. And we'll evaluate that as we have in the past going forward.

Jimmy Bhullar, JP Morgan:

Okay, and maybe if I could just ask one more on potential change in administration if the Democrats do take control. Is there anything that concerns you as it relates to a possible sort of new renewed DOL fiduciary standard in case the Republicans lose the election?

Bill Wheeler, President:

Hi, Jimmy. No. The short answer is, if you listen to what the Democrats leading people in Congress and then obviously a potential Biden administration and what they've talked about, I don't think there's real concern about that or a renewed initiative. What's happened since the DOLs old fiduciary rule is, the SEC and the NAIC have really stepped up and put in place rules governing these subjects and I think they work much better frankly and are effective. And so, I don't think there'll be a renewed push to kind of revisit that in the DOL. So, no, I think we're, and by the way, even if there were, I think we feel like we would be able to deal with it just like we were ready to deal with it the last time. So, we're not very concerned about that.

Marty Klein, Chief Financial Officer:

If I may, just before we go to next question, I just want to clarify something when I responded to Humphrey's question earlier. The \$8 per share for next year that we'd be able to expect to do beat per share actually excludes the associated Apollo shares, which are about \$28 million. So again, we expect to exceed \$8 per share and that excludes \$28 million associated with Apollo. Just want to be clear on that.

Operator:

Your next question comes from Elyse Greenspan of Wells Fargo.

Elyse Greenspan, Wells Fargo:

Hi. Thanks. Good morning. My question, I was just hoping to get some more color on the retail deposits. You had pointed that they were going to be around the second quarter level, obviously a good amount above that. So just how we should think about the fourth quarter and then even thinking about trends into 2021?

And then one clarification on the \$8 per share of earnings for 2021. Is that assuming anything for inorganic opportunities? Thank you.

Bill Wheeler, President:

Hi, Elyse. Yes, with regard to retail, the third quarter ended up stronger than I think we were feeling when we did our second quarter call, and it has a lot to do, frankly, with the competitive environment is still relatively benign. And as we move into the fourth quarter, what's happened now is, many yields have declined because of lower rates, but also lower spreads. So people have had repriced their portfolio offerings, and we have too, or their product offerings. And so, I would say, volumes feel like they're moderating a little bit in retail, but they're still very good. So, we expect a good solid fourth quarter and we expect that will carry on into 2021.

And part of the reason we have confidence about that is really because of the success we're having growing our bank and broker dealer customers or clients. That's where the growth is in the fixed annuity business and we think that that's where our focus will be and we're going to have continued high levels of production or higher levels of production. So, even though the IMO business might get more competitive, I think we feel like we're going to be in good shape in 2021.

Marty Klein, Chief Financial Officer:

And Elyse, it's Marty. On the other question you had on the \$8 per share for next year, which again, I think we expect to exceed that. That really just reflects what we have right now and then continued organic volumes and probably about the same clip. We've not modeled in an additional inorganic transaction for that number. Obviously, as Bill had commented earlier, we feel pretty good about the pipeline and we feel very good about our ability to hit on all cylinders, but that number I quoted does not reflect an additional inorganic deal in the next year.

Operator:

Your next question comes from the line of Mark Hughes with Truist.

Mark Hughes, Truist:

Yes. Thank you. Good morning. Related to that, how much disruption is there still in the IMO channel? How much do you think across the sector sales are down? When does that recover? And then also, any product design or product innovation that may be driving the market share gain?

Bill Wheeler, President:

Hi, Mark. I'm not sure our experience in the IMO channel is indicative of what's going on overall. Our sales are down somewhat in the IMO channel, but not nearly as much as I think where the industry is. So, we've clearly picked up market share there. I don't think there's any doubt that IMO sales which sales are a lot of times face to face across the kitchen table kind of transactions are that are still affected. And so, you'd have to say, they're probably going to continue to be affected until the pandemic reaches a different phase, which your guess is as good as mine when that really is, but obviously not until later sometime next year.

So, I think IMO business is probably going to come back a little bit this quarter because IMOs are scrambling to figure out how to sell digitally or sell in some kind of a remote environment. But I still think they'll be affected until mid-year next year. The IMO channel is still very important to us and it's very important, frankly, to many of our competitors. So, I think it's going to be tough for a little while yet.

Operator:

Our next question will come from the line of Brian Meredith with UBS.

Mark Ward, UBS:

Thanks guys. This is Mike Ward on for Brian. Just had a question on what you guys are seeing in the credit world. Some other life insurers have mentioned forecasting potentially more credit migration and losses in 2021 than this year kind of driven by the fed actions kind of delaying losses. So just wondering if you had any update on your view heading into next year, maybe if you're expecting that too or maybe you're making any allocation changes that you might want to discuss. Thanks.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Yes. Sure, Mike. Thanks for the question. Well, for our portfolio, we continue to think, as we've been saying all along, we've always had more downgrade risk, meaning capital needed to support that than actual default risk. The numbers are clear evidence that that's the case. I mean, 2 basis points of OTTI through the first nine months of this year, really haven't had many defaults. I think there could be another leg down, cases aren't decreasing, they're increasing. So, definitely could be another leg down that would cause perhaps, over time, some additional downgrades. I think, nothing we've seen so far has changed our allocation. I mean, we've been for the last year and a half to two years upgrading the credit quality of our portfolio. I think that's

really bearing fruit now in the teeth of the crisis as evidenced by the low defaults and very modest amount of downgrades.

But definitely could see more downgrades, and a small amount of defaults just like we've experienced to date but haven't really changed our allocation because of that. There not many things are cheap when they are, we lean in, in size. But we're doing more in the corporate land, which a lot of our purchases more in single As than we traditionally had done, still doing a healthy amount of BBBs as well. Not all BBBs are created equal, but still focusing on defensive industries. And I think that's again a good playbook up to now, and that's what we'll continue to do. But yes, definitely there's a possibility, maybe a probability of another leg down.

Operator:

And presenters, that are all the questions that we have for today. And I would like to turn the floor back over to Noah Gunn for any additional closing remarks.

Noah Gunn, Head of Investor Relations:

Great. Thanks everyone for joining us this morning and for your continued interest in Athene. If you have any follow-up questions on anything we said on today's call feel free to reach out to us. And we look forward to speaking with you again next quarter.

Operator:

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