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Athene Holding Ltd. (ATH.PRA)

Investor Meeting - Fixed Income

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Gretchen and I will be your conference operator today. At this time, I would like to welcome everyone to Athene's Fixed Income Investor Update 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. [Operator Instructions] Thank you.

I will now turn the call over to Noah Gunn, Global Head of Investor Relations for Apollo. Please go ahead.

Noah Gunn

Managing Director & Global Head of Investor Relations, Apollo Global Management Inc.

Great. Thanks, Gretchen, and thanks everyone for bearing with us as we were getting started here. Welcome again to today's call. Joining me are Jim Belardi, Chairman and CEO of Athene, and Marty Klein, Chief Financial Officer. This morning we posted two documents to Athens' IR website which you may have seen, including a fixed income investor presentation, as well as the latest iteration of our asset stress test. The last version of which we published back in June as part of our Retirement Services Business Update presentation.

We must remind you that today's 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 Athene and Apollo's 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. And you'll find reconciliations of these metrics within our materials available at ir.athene.com.

As many of you know, Athene has historically been a regular issuer in the bond markets for senior debt and funding agreement backed notes, as well as an issuer of preferred equity. Today's call is specifically geared for this important investor constituency, as we'd like to ensure continued connectivity and transparency.

To set expectations, Jim is going to provide an update on the business as well as provide some insights around Athene's asset portfolio before turning it over to Marty, who will discuss Athene's liability, capital and liquidity profile.

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

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

Thanks, Noah, and good afternoon, everybody. As we were working to complete our merger with Apollo in late 2021, we felt very confident that we were in a strong position and that 2022 would be a truly remarkable year.

Interest rates rose dramatically off their historic lows, spreads widened, challenging equity markets reminded retirees that equity markets don't always move upward. And as a result, demand for our retirement savings product soared.

We generated \$48 billion of organic inflows across our diversified channels, not because we stretch for growth, but because it was a particularly opportune time to serve the needs of the marketplace. This level of activity set a new bar for annual production, while driving the win-win combination of providing competitive guarantees to our clients and delivering attractive spreads and profitability to our shareholders.

It was reported a couple weeks ago within Apollo's financial results, that Athene generated record normalized spread related earnings of \$2.3 billion in 2022. This strong result builds upon Athene's historical track record of delivering consistent, compelling earnings growth through disciplined business building. Athene's earnings power as measured by normalized SRE has compounded by 15% per year on average over the past seven years dating back prior to the company's IPO.

As many of you know, we run a simple business model. We provide attractive products that help make guaranteed retirement income affordable for Americans. And in recent years we've started expanding our reach to help those in certain places outside of the US as well. By issuing reinsuring and acquiring retirement savings products, we are provided with long dated funding entrusted to us by our clients. We invest those funds with Apollo into a high quality investment portfolio where we expect to outperform other companies by 30 to 40 basis points and we benefit from keeping 100% of the upside from our investments.

From the beginning, we based Athene on a business model that we first executed at my alma mater company, SunAmerica. At SunAmerica, we were rewarded for our consistently growing earnings and ability to capitalize on market opportunities when the company was acquired for 6.6 times book value.

Athene's business today is bigger and is more profitable with higher returns than SunAmerica was 25 years ago. Simply put, our track record of profitable growth at scale is exceptional. We have a significant footprint in the market as a leading retirement services franchise with more than \$238 billion of gross invested assets,

representing over 2 million underlying policyholders and annuitants which is supported by our stellar team of more than 1,700 professionals.

The growth we've delivered past, present and future would not be possible without the support and disciplined management of our very strong balance sheet. We have always run the business with an orientation toward holding excess capital as we are not near-term profit maximizers. We believe this approach provides the strategic flexibility to be opportunistic when the moment is right and a prudent margin of safety when dislocation strikes. We continue to be very well capitalized with more than \$2 billion of excess equity capital, including more than \$1 billion in excess of S&P's AA levels. Further, we have \$20 billion of regulatory capital, which represents approximately 12% of reserves, significantly more than the 9.5% level of other A+ and even AA- rated companies.

Along these lines, our strong financial profile has been increasingly recognized over the years by third-party rating agencies. Last year, we received two important updates that are worth highlighting. In May, we were upgraded to A+ by Fitch, and in July, we received a first time rating of A1 from Moody's. These ratings developments are very important and underscore our efforts to continue building the business in a prudent and disciplined manner. We are running the company to AA standards.

Next, I'd like to spend a few minutes updating you on the latest trends we are seeing across our platform. As I mentioned last year, new business inflows totaled \$48 billion and approximately \$20 billion where 40% of activity was driven by our core retail annuity channel, where we lead the US market in fixed annuity issuance. As many of you know, retail annuities are in high demand industry wide because they're repriced to the benefit of consumers faster than other investment options and they offer tax deferral and principal protection features that are highly valued in an uncertain environment.

However, our success has been driven by more than just an industry [ph] tide (00:08:08). We would point to years of work expanding our distribution capabilities, differentiated asset origination via Apollo, and very strong capital resources as the primary drivers which have allowed us to generate record organic flows, while writing business at well above average spreads. Put that another way, our strong capital position enabled us to ride the wave of demand in the marketplace, while other carriers were forced to constrain their growth due to having more limited capital resources.

On the distribution front, the story improves with each passing year. We continue to penetrate the financial institutions channel. And with the demand for MYGA product in particular, we generated nearly 70% of our retail inflows through financial institutions in 2022, which compares to approximately 45% in 2021. This positive mix shift of doing more business through financial institutions elevates our platform, creates more scale potential, and further diversifies our new business origination.

To give you a sense of this, five of our distribution partners each generated more than \$1 billion of volume in 2022, whereas our largest distribution partner in 2021 topped out at \$600 million. We expect a great 2023 as we are targeting product launches with three major financial institutions where we do not have yet a presence. In addition to onboarding new large relationships, we will further penetrate existing relationships through launching new FIA and RILA products, and we are appointing more financial advisors within those firms to sell Athene products.

Importantly, our strong inflows within retail have been driven by a diverse mix of products. For example, Athene's highest single product ranking by sales volume now places ninth in league tables, which highlights the fact that we do not rely on only one or two flagship offerings to drive results.

Turning to flow reinsurance where we effectively reinsure the retail business of other carriers. We had a very solid year. We are making a conscious effort to reinsure more FIA product in this channel and we are also spending time building our business in Japan and in the broader Asia-Pacific, following a very good partnership experience we have had in that market. Between the US and APAC, we will add new relationships in the year ahead.

In pension group annuities, which was our second strongest channel in 2022, we generated \$11 billion of inflows from 10 solutions oriented transactions. Including two key transactions with blue chip repeat clients, Lockheed Martin and Alcoa. Our leading position in the pension group annuity market is clear. In 2022, we estimate that Athene represented more than 20% of the US pension group annuity market. And more importantly, over the past three years Athene has executed approximately \$30 billion of transactions with our clients compared to approximately \$20 billion for our next closest competitor. Market conditions have generally provided a tailwind to pensions, many of whom now have funding ratios exceeding 100%. So we expect the marketplace to remain active, including for larger size opportunities.

In our funding agreement channel, we generated \$10 billion of volume last year in what was our second best year. Through a combination of our funding agreement backed note program, secured funding agreements, long-term repo and FHLB activity. A large part of that activity was completed in the earlier part of 2022 before choppy market conditions made it less attractive for us to be active. This is indicative of our overall strategy whereby we will restrict growth if it does not meet our targeted return thresholds. Further to this point, we even took the extraordinary step of repurchasing a few of our existing FABNs with the goal of tightening the trading spreads of some of our outstanding notes. This was the right economic thing to do, the right signal to the market and supports our investor base. While it's been a relatively quiet start to 2023, we look forward to re-engaging as market conditions allow.

Overall, the breadth and diversity of our organic channels is a meaningful differentiator. And we can pivot among them to dial up or dial down the pace of growth, depending on achievable returns. We are very confident 2023 will be another record organic growth year with strong profitability. This growth will be funded with an increasing amount of third-party capital from our ADIP sidecars.

Turning to the asset side of the balance sheet, I'd like to provide some helpful context for how we manage our balance sheet before offering some supporting stats. In the insurance industry, the default setting for portfolio construction is generally to own direct holdings of issuer obligations. Without differentiated asset capabilities, the only way to create yield in a direct holding strategy is to take more credit risk. At Athene, however, we typically invest in senior secured securities that are highly rated and defensively positioned. Where we have aim to create yield, we have prioritized generating this yield through less liquidity rather than credit risk and insist on structural protections rather than owning obligations of underlying issuer's outright.

In terms of allocation. This means we are definitionally underweight high-yield securities and bank loans, given our preference for structural protections with substantial subordination. Ultimately, this means we will have less impairments than others who invested directly in subordinated bonds in the search for yield. And our 14 year track record confirms this.

Our investment philosophy is centered around two primary objectives; yield outperformance and downside protection. We've created a portfolio that can generate 30 to 40 basis points of outperformance over time by targeting higher yields with lower losses.

Now a few statistics on our nearly \$200 billion portfolio of net invested assets. Approximately half of our portfolio is invested in high quality corporate bonds and government securities. Including in an industry standard private corporate portfolio, and \$57 billion of highly liquid public corporate bonds, munis and government securities.

In terms of credit quality, 96% of our available for sale fixed maturity securities are investment grade designated NAIC 1 or 2. Outside the NAIC purview, we hold high quality first lien commercial mortgages, 98% of which have comparable investment grade designations, as well as residential mortgages, which are 95% in good standing.

Additionally, we have significant credit enhancements in our structured products. And as you know, we employ a differentiated alternative strategy that has a defensive orientation and is less prone to binary outcomes. As evidence of this, our alternatives portfolio appreciated 10% in 2022, significantly outperforming broad equity markets, which were down approximately 20%.

As you evaluate our portfolio in the context of others in the industry, our allocation will likely look different in two key areas, structured securities including CLOs and asset backed, as well as commercial real estate. Why are we invested in these assets? They provide a superior risk/return through the cycle than your run of the mill corporate bond. And they are well supported by the persistent nature of our liability base. We make sure of that by continually stressing these books according to downside assumptions approximating historical recessions, including a baseline recession, a deep recession, and more recently, a stagflation scenario given economic conditions.

As Noah mentioned, we published the latest iteration of our asset stress test earlier this morning, which we are in a cadence of producing at least annually, if not more frequently. You can see within the presentation that each of the stress scenarios we outline are very manageable for us to navigate, even the deep recession that in some ways is more punitive than the Great Financial Crisis.

This is our fifth edition of stress test reporting since we began disclosing this information five years ago as part of our Investor Day in 2018. We have been committed to a high level of transparency for some time and believe the information we provide goes far beyond what others choose to publish.

The investing backdrop in 2022 afforded us with very interesting opportunities. Amid rising rates and attractive spreads, we invested more than \$50 billion into an environment that allowed us to move up in quality across various pockets of the portfolio, while achieving better nominal yields and outperformance.

For example, the yield on our fixed income purchases was more than 20 basis points higher net of fees than the BBB Corporate Bond Index. This highlights the benefit that we captured by investing across asset classes through our active alpha generating investment capabilities.

Most of our purchase activity for the year primarily fell into three categories. First we found attractive opportunity in structured securities like CLOs and asset backs, which collectively accounted for 36% of our purchases. We focus on the senior investment grade tranches of these securities, which benefit from significant credit enhancement and enable us to pick up a substantial amount of incremental yield at a similarly high ratings profile compared to our corporate purchases. For example, the average NAIC designation of our structured security purchases during 2022 was 1.3, solidly within an investment grade territory. At year end, more than 99% of our CLO portfolio and approximately 95% of our ABS investments were investment grade.

Second, we found increasingly attractive values throughout the year in public and private corporate bonds, which accounted for nearly 27% of our purchases, as we aim to keep filling our target allocation following the large influx of cash from our organic growth.

And third, we sourced significant volumes of attractive commercial and residential mortgage loans, which accounted for approximately 26% of our purchases. As I said, it was a compelling year to put capital to work in fixed income. We entered the year with new money yields on our fixed income purchases below 4% and given the substantial move in rates, we ended the year achieving north of 7%.

I look forward to fielding any questions and will now turn it over to Marty to continue our prepared remarks.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

Thanks, Jim, and good afternoon, everybody. I'm going to spend a couple of minutes on our liabilities and then move on to address capital.

As you can see from our results, Athene's growth engine continued to perform very strongly, which drove the record annual organic inflows, as Jim discussed. 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 cost, predictable, long-term liabilities. We generated gross organic inflows in 2022 at a record \$48 billion with underwritten returns in excess of our profitability targets, which we have characterized as mid-teens.

Importantly, we prioritized maintaining a fortress balance sheet while keeping our discipline and achieving our targeted returns in our product pricing. This means that being well capitalized comes first, and we will only grow within our ability to maintain AA capital levels and mid-teens adjusted debt to capital ratio. Our diversified model allows us to focus on the lines of business that offer the most compelling returns. Through all our channels, we offer simple retirement savings products with structural features that increase stability.

As of December 31, approximately 82% of our liabilities either carried a withdrawal penalty or cannot be withdrawn. Included within this 82% is nearly 30% of inforce liabilities that are non-surrenderable such as buyout, pension group annuities and funding agreements. And a little more than 50% of our fixed indexed annuities, which carries surrender charge, averaging approximately 6%. Roughly two-thirds of this 50% have market value adjustments above and beyond surrender charges. The 18% or \$33 billion of our liability portfolio that is not subject to surrender charge are given product seasoning closer to end of life with higher lapse rates and are backed by short duration assets, therefore having less impact upon withdrawal. This is also one of the reasons Athene's investment portfolio has an allocation to floating rate securities.

Our historical outflows have averaged approximately 9% and are within the expected range of our forecasted experience. Many of these policies are dormant and insensitive to rate change, and a large number of these policy lapses would actually be a net benefit to Athene, as they would release capital for us to redeploy in new non-surrenderable or surrender charge protected inflows which have lower liquidity needs and lower capital requirements.

Risk management is embedded in everything we do. Athene puts great importance on being asset liability duration matched with quarterly cash flow monitoring and stress testing. Our robust risk management frameworks and procedures underpin our focus on protecting capital and aligning risks with our stakeholders expectations. Stress testing plays a key role in defining our risk appetite, with quarterly tests performed on both sides of the

balance sheet. As Noah mentioned this morning, we posted the latest iteration of our asset stress test on Athene's Investor Relations website.

The merger with Apollo has strengthened Athene and brought increased alignment, innovation and access to new products. It's important to note that Athene and Apollo have separate and distinct credit profiles in accessing the capital markets. Athene has an independent capital structure, a separate board of directors with a majority of independent directors, as well as a conflicts committee. And Athene continues to be a standalone SEC filer.

We also have the continuity of an established tenured management team. We are extremely excited about the future of Athene and the continued earnings and balance sheet strength of the company. We've built the company to be a leader in the retirement services industry by prioritizing capital strength, liquidity and policyholder protections. We focus on holding AA levels of excess capital and believe Athene's strong capital and liquidity position is a key element of our business strategy both today and in the future.

Holding significant excess capital allows the Athene to benefit from times of market dislocation, but not becoming a forced seller of assets and having the flexibility to invest opportunistically at wider spreads. This is a strategy which proved successful early in the pandemic and one that we continue to benefit from today. Our three priorities in allocating capital include first, maintaining our fortress balance sheet by preserving excess capital at AA levels with a mid-teens adjusted debt to capital ratio. Followed by supporting our profitable growth from organic and inorganic means. And third, returning capital via dividend to the Apollo Holding Company.

As Jim mentioned, we have a robust capital position with more than \$2 billion of excess equity capital, including approximately \$1 billion in excess of S&P's AA levels. Further, we have \$20 billion of regulatory capital, which represents approximately 12% of the statutory reserves, which is over 25% more than the 9.5% level on average for other A+ and AA- rated companies. According to the latest data available, our annual credit losses over the five years through 2021 have averaged 7 basis points, well below the industry average of 12 basis points.

At year end, we had \$5.2 billion of total deployable capital, comprised of \$2.3 billion of excess equity capital, \$2.7 billion of untapped debt capacity. And the remainder coming from available undrawn third-party capital within ADIP, a pool of third party capital which fuels our ACRA sidecar. In addition to the strong capital position, we had over \$73 billion of available liquidity, including cash and equivalents, our liquid bond portfolio, committed repo lines, revolving credit facilities, and untapped capacity at the FHLB.

I would highlight that Athene's credit facilities are differentiated and that we have a traditional revolver as well as a liquidity revolver which we established in 2022, which provides further flexibility as we strategically manage our liquidity profile.

We have numerous sources of capital, including strong earnings generation and capital release from runoff, accessing the capital markets through debt and preferred equity issuances and strategic, on-demand third party capital via ADIP. We fund our growing business in a number of ways, and in years of exceptional growth like 2022, equity capital from ADIP is very important and provided approximately \$900 million to help fund our business.

Raising third party equity capital for growth distinguishes our strategy from most others who largely return capital to shareholders via share buybacks and dividends. This source of equity capital enables us to grow, while maintaining AA capital levels with only mid-teens adjusted debt to capital ratios. We ended 2022 with a preliminary consolidated RBC ratio of 416% and offshore RBC ratio of 407% and an onshore RBC ratio of 387%.

We maintain a high bar for our target capital ratios to ensure that growth does not come at the expense of a strong balance sheet.

Our ACRA sidecar structure has been a game changer for Athene and we plan to continue using this on-demand, long-term equity capital provided by ADIP as an efficient way to fund growth, while maintaining balance sheet strength. Having third party capital – having third party produced [indiscernible] (00:29:01) is not only capital efficient, but it enhances Athene's return on retained business.

Since inception in 2019, we have deployed over \$3 billion of capital at mid-teens or higher returns from ADIP. With the proven success and mutual benefits of ADIP now clearly demonstrated we have strong support from existing ADIP investors and expect that source of capital to continue to grow materially. In 2023 ADIP is expected to support about 40% of our organic business volumes versus less than 20% in 2022 which preserves Athene's excess capital and target capital ratios. At year-end, we had an adjusted debt to capital ratio of 15.6%, well below the 25% debt to capital ratio of AA and A rated insurance. As we continue to prudently grow our balance sheet, we will utilize the capital markets to maintain our target leverage.

Maintaining close and transparent relationships with our regulators in each of our four rating agencies is extremely important to Athene. As Jim mentioned, in May of 2022, we received an upgrade to A+ from Fitch, following our upgrade from S&P in 2021 and in July of 2022 we received inaugural strong A1 financial strength rating from Moody's. This serves as further evidence of the emphasis that we have consistently placed on our interactions with rating agencies, as well as our dedication to balance sheet quality and financial transparency. We aspire to continued upward trajectory with our ratings.

We believe that transparency is key in our relationships, not only with regulators and rating agencies, but also with the markets. All of the Athene's key regulatory filings, including for its main Bermuda entity, are publicly available. We voluntarily disclose the breakdown of [ph] affiliated assets (00:31:06) by type in our 10-Ks and 10-Qs. And we believe we are the only insurer to commit to publishing stress tests annually.

We thank you for your time today, and now we'll turn the call over to the operator to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll now take our first question from Dave Bird from Pacific Life.

Dave Bird

Analyst, Pacific Life

Q

Hi. Good morning. Can you hear me?

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

We can.

Dave Bird

Analyst, Pacific Life

Q

Great. So I just – I have a question. I've got some things I'm trying to figure out here. And if you've already disclosed this to investors, my apologies. I'm just trying to catch up [audio gap] (00:31:59) I'm looking at year end results versus nine month results and the jump in investment related losses there. And I know you've got merger accounting with successor and predecessor and that sort of thing. And at least through the first nine months of the year, you had a big chunk of it was change in fair value to reinsurance assets, your mortgage loan book, which is a legacy book, FIA, hedging derivatives, et cetera [audio gap] (00:32:32) trading and equity securities in there and realized losses on AFS security. So can you help us sort of unpack what happened in the fourth quarter and how much of that is accounting changes versus actual losses you guys had to realize maybe first nine months or maybe fourth quarter 2022 and – just kind of help us figure out what's going on there. Thank you.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Sure. You broke up a bit during the question, but I think we got the gist of it. But yeah – I think a couple things. As you've noted, at the beginning of last year with the merger with Apollo, we marked all of our assets and liabilities to market under purchase GAAP accounting at what was frankly a pretty low point for rates. And interest rates, of course, have only gone up a lot from there. So a couple things. One is that – and that are different from other – many other companies. So the accounting standards are the same, but the way it applies to Athene is little bit different. In that, for available for sale securities, those marks go through AOCI, not through net income.

By the quirks of GAAP accounting for us – and I think you mentioned this, for us the assets backing reinsurance assets are marked to market through net income so that during much of the year, given the big upward trajectory interest rates created losses that came through net income, they were really unrealized and obviously those did not reflect any kind of change in marked under liabilities. And those assets are frankly just like they are against our direct written business where those changes go through AOCI.

The other thing that we did with the merger, which I don't think is typical for other companies is, with the GAAP provision of CECL accounting, which is really providing for future expected credit losses, companies, including ourselves, have those provisions for credit losses. Most companies like ourselves take those kind of below the line as non-operating items. But companies also have the option to elect fair value option on assets and then not have a CECL allowance.

Given that many investors aren't as focused on our CECL allowances and also we think showing the marks is more transparent, we've chosen to elect the accounting of mark-to-market for our loan portfolio, that's commercial loans and residential. So those marks also go through. We typically avoid realizing losses where we can, although there are times, and Jim can elaborate on this, where we see something we no longer like, we don't feel as good about its future and we will sell it and especially in a rising rate environment that will come at a loss. And there was, I think, a little bit of that in the fourth quarter.

Dave Bird

Analyst, Pacific Life

Q

Okay. Fair enough. Fair enough. So it sounds like most of it was due to CECL and just change in fair value of assets that were not AFS [audio gap] (00:35:50)

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Right. We had a very – we had a modest increase in CECL and then also in our mortgage loans we also had a decrease. Again, that's just on the marks, not on realized losses.

Dave Bird

Analyst, Pacific Life

Q

Yeah. Okay. Okay, great. Okay. Thank you. And when do you guys expect to have your 10-K released?

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Next week.

Dave Bird

Analyst, Pacific Life

Q

Great. Thank you.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

By the way, I would note that those marks are not – that's not how statutory accounting works and that it doesn't impact capital. It's really just a GAAP accounting construct.

Dave Bird

Analyst, Pacific Life

Q

Right [audio gap] (00:36:23-00:36:29)

Operator: Our next question comes from [ph] Taylor Kramer from Aaron Asset Management (00:36:32).

Q

Hey, thanks for hosting the call and for providing the transparency in those presentations. Really helpful. I had a question about excess capital. I think throughout 2022 you saw about \$1 billion decline in your excess capital. I'm

just curious if you could run through the major drivers behind that decline. I imagine some of that is due to really strong organic inflow environment that you saw.

And then, I guess, secondarily, where should we expect this excess capital buffer to remain? I know you said you're managing to AA capital and that you're kind of \$1 billion above S&P's AA capital threshold. So is that kind of the floor that we should expect to where you would draw down your excess capital buffer? Or would you be willing to go further than that in the right environment? Thanks.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Sure. Thanks for your question. Yeah, you're right. With respect to what happened last year with our excess capital position that we put it to work the way we want to. Jim went through a fair amount of detail on how we put it to work in our organic business. And I'd say we're very, very happy with the returns and spreads that we're getting on that business, and that is actually capital accretive down the road. But we did put a lot of excess capital to work organically. Obviously, we've funded some of that growth with equity capital from ADIP and we were also in the preferred and debt markets towards the end of the year. But yeah, a big part of that decrease was really due to that.

And when we started the year, we were much, much higher over S&P's AA thresholds, which we don't really aspire to be. Right now at year end, as we said, we're about \$1 billion over.

I expect that to kind of – in this environment that's sort of a near-term place that we expect to be. I think, we don't really need to be there – necessarily want to be there longer term. But it's a little bit of an uncertain environment. As we head into an uncertain economy, we want to make sure we have a lot of capital if there is a recession later on this year or next. Some people are now saying that there may not be one this year, but we are holding some capital for that just in case.

And also, there's some uncertainty in some of the models, such as S&P, for example, is likely to come out by the end of this quarter or in early April with the new capital model and we want to make sure we continue to look good under that updated lens.

So we're holding – we're being very prudent for now. But I wouldn't expect longer term for us to really maintain that level over S&P's AA. And for AA levels or better, we're happy with that and it doesn't in the longer term need to be in the \$1 billion.

Q

Got it. Thank you.

Operator: Our next question comes from Craig Robbins from NISA Investment Advisors.

Craig Robbins

Analyst, NISA Investment Advisors, LLC

Q

Thanks for taking the question. Can you just help me understand in your funding agreement backed note program, it talks about reinsurance to the Bermuda entity?

And can you just – is there any way to quantify the benefits that you're getting from a capital release perspective, a profitability perspective or some other metric that you guys look at for that strategy? And then I assume the assets that that you're buying with those remain in the US operating entities.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Yeah. We write funding agreement out of our Iowa Insurance operating company. And we – really starting – I guess, a couple of years ago really began to fund some of that with equity capital from ADIP which is in Bermuda, so really the Bermuda – reinsuring business of Bermuda is really more about getting more equity capital largely from ADIP to – and from ACRA to really help provide equity capital source that business, but the asset portfolio behind FABNs is just like it is in anything else and it does – those assets that underlie do show on our Iowa balance sheet.

We did do – and I think this got referenced in the Apollo earnings call last week, we did do a reinsurance arrangement of a block of funding agreements of about \$5 billion to a Bermuda company that we have investment in to really also provide additional capital and also provide some earnings benefits to that company, but really the reinsurance is just about laying off risk and then laying off the associated capital or funding growth with equity capital from ADIP.

Craig Robbins

Analyst, NISA Investment Advisors, LLC

Q

Got you. Thank you. Very helpful. And then any color on the PRT market going forward this year? I know it's been a big area of growth for you guys. And just maybe talking about kind of the competitive advantages you have relative to peers, and then kind of anything around your win rate as far as when you're bidding on these deals relative to peers.

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

Yeah. Hi, Craig. This is Jim. One of the benefits of complete alignment with Apollo since the merger has been comparing Rolodexes between people on both sides of – in both companies. And having presence of both companies and meetings with them, figuring out what their priorities are, what their needs are. And given our capital position, we have a number of ways to create solutions for them. And it's on the pension side, it's on the asset side, given Apollo's investment in sourcing investment grade private credit with 150 basis point outperformance on yields versus comparably rated public securities.

So it's a total package. We did about \$10-plus-billion of PGA business last year. In my remarks, we mentioned that we have been the biggest solutions provider there over the last three years. We think that's only going to accelerate. The more complex, the bigger the deals, the higher likelihood we're going to win.

And so, we'd also like the business to be a little bit more consistent as opposed to only ramping up for the "large deal." So it's a number of things that we're focused on as we further build this business. But the alliance with Apollo is a real impetus for more deals to be done in that area.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

It's Marty. I would just add. The other benefit we have in the space is ACRA and the funding we get from ADIP, because we're seeing more and more what we would call jumbo deals come to market and jumbo used to be \$1 billion and higher, now you're seeing multiple \$1 billion of transactions come from a particular plan sponsor.

And for companies that don't have a sidecar that can source capital, it makes capital planning difficult. So if a company – and this happened last year to some extent, a couple of our competitors did win a very, very large transaction, but without a sidecar to help fund it, they now really don't have a lot of excess capital to keep deploying in the PGA space or the pension risk transfer space. For us, our capital planning is much easier because if we do get a very large transaction and win it, we can source a lot of that capital that goes for it from our ACRA sidecar, and that makes our capital planning much easier.

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

The final thing I'll say on competitive edge is, it's really are the same competitive advantages we have throughout our business. Our capital position is second to none. We invest money in the fixed income space, I think, better than others. We have a lower cost infrastructure. And you add those things up, it's a pretty compelling value proposition for the client.

Craig Robbins

Analyst, NISA Investment Advisors, LLC

Q

Thank you. Appreciate the color.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Thanks.

Operator: Our next question comes from Benjamin Sinclair from Odium Brown.

Benjamin Sinclair

Analyst, Odium Brown Ltd.

Q

Hello. Thanks for taking my question. First, on the asset side of the balance sheet, clearly your new asset purchases are weighted more towards things like CMLs and structured credit. And you've spoken at length about the advantages of those asset classes is the past. So should we take that as a sign that perhaps the overall allocation towards those asset classes is going to increase or are there certain constraints, liquidity or otherwise that would prevent you from doing that?

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

Yeah. Thanks for the question, Benjamin. We're very comfortable with our current allocation. We don't have any – even though – look, we have an out-weighted allocation to structured versus some others. We don't expect to increase it over time and we really don't expect to decrease it over time. We like where we are within rounding error distance. The key for us is, is it a compelling value proposition on the margin? Relative value is an exercise we go through consistently as a company, where's the most value for the unit of risk. And we lean in on the most valuable proposition after that analysis. And for a long time and even now we still find value in structured securities at the purchase price as we're able to buy them, love the diversification of risk, subordination, et cetera.

So but I wouldn't – I wouldn't think we're going to increase our allocation, I mean, I wouldn't see it materially decrease either.

Benjamin Sinclair

Analyst, Odlum Brown Ltd.

Q

Okay. Great. And then just one other question. Clearly, there's a big step-up in the use of ADIP this year, I'm wondering if this was, if this kind of step-up was foreseen at the Apollo Investor Day or even the Retirement Services Business Update. And if it has gone faster than expected, just wondering what's changed, how has the thinking evolved.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Thanks for your questions, it's Marty. Apollo Investor Day, which is going to be a couple years ago or so, it was right before the merger, really kind of talked at that point about Athene and Athene's expected volumes. Well, we've fortunately and through a lot of hard work and the effort that the folks – we've all made with our colleagues at Apollo, we've greatly outpaced those expectations on the organic front. We didn't expect to do \$48 billion last year as an example of that.

So as we said during the call, we want to make sure we're maintaining a lot of excess capital. So as we do more volumes than we'd planned 2 to 3 years ago, we want to make sure we only put on those volumes if we maintain very strong capital ratios.

So we've begun over the last 2 to 3 years to use ADIP and ACRA more actively. So when we first established ACRA, just to give you an example, it was really envisioned to just help us fund our inorganic business, which can be lumpy and harder to predict. And then over time we began to use it or pension risk transfer transactions because those also can be lumpy and are in some ways like miniature M&A types of deals. And then a couple years ago, we realized, well, we can also have it use our funding agreements and last year help our fund our retail business. So now heading into 2023, as we see this tremendous momentum we have in pretty much all of our channels, we now going forward are intending to use the ACRA sidecar vehicles to really help fund all of our organic channels to some extent, whether it's retail and we're ramping up the amount of retailers funded by ACRA or funding agreements or flow and continue with PGA. So I think there's no doubt as we're hitting on all cylinders organically, that we're going to use ADIP and ACRA funding a whole lot more. So we make sure that we maintain those strong capital ratios.

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

Yeah. I would just add to that, I think I think our expectation is that the use of third-party sidecars like we have would contribute about 40% to 45% of our funding requirements going forward, which I'm sure you agree is a huge credit positive us being more capital efficient, helping to monitor our growth on a net basis. So we think it's a real credit positive for us.

Benjamin Sinclair

Analyst, Odlum Brown Ltd.

Q

Well, I certainly would agree with that. And if I could just sneak in one more. Could you just talk a little bit about what the Credit Suisse SPG transaction means for Athene? And if you guys would take on more or less of the product that they originate relative to the other platforms?

James R. Belardi

Partner-Apollo Global Management, Inc. and Co-Founder, Chairman, Chief Executive Officer & Chief Investment Officer, Athene Holding Ltd.

A

Yeah, sure. So a couple points. I think it's a great transaction for Apollo. It really becomes great over time as Apollo builds the business. The structured securities, structured products business at Credit Suisse was a market leader and a lot of different relationships and Apollo was looking to build on those relationships result in more flow that Athene and other entities can take advantage of. But I mean, Athene – everything Athene's doing from that transaction or getting allocated from that transaction is investment grade, a few billion dollars, not all of which has been funded yet, we think it's value add above things we could do otherwise. We know the structured securities market pretty well, so analyze it pretty carefully. But we're talking about \$2 billion to \$4 billion or so of structured products that we're pretty familiar with, investment grade, that we think are value add at the end of the day.

Operator: The next question comes from Jeff Bernstein from Stonebridge.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Q

Yes. Hi. Thanks for taking the question. I have two actually, two short ones. First is, have you guys quantified what the impact would be on your capitalization should that S&P proposal come back about – the punitive impact of not having an S&P rating on a structured security? That's question number one.

Question number two, regarding your capital market issuance, I see you're in range – your target range in terms of debt to cap. In terms of sizing the preferred bucket, how do you think about that both in terms of size and frequency of issue? Thank you.

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

A

Sure. We're in pretty constant dialog with S&P and they're, as you might imagine, being very close to the vest on their draft capital model change, if you will. I think the – in their prior model, which they released over a year ago and then pulled back, I think in late summer of last year – sometime in the summer, the thing they created heartburn for most companies in the space and frankly, other rating agencies and frankly even those in Washington, DC was kind of this notching approach that they were going to take, where if something wasn't rated by them or by Moody's or Fitch, it would just be assumed to be CCC.

We talked to them at length about that, which is frankly a very illogical way to go. There are a lot of good rating agencies out there, there's nine NRSROs. We try to get a couple ratings where we can, but S&P doesn't always rate everything. They've pulled that back pretty quickly after getting a lot of criticism. We, and I'm sure others, probably quantified what the impact of that would be which I'm not going to talk about today, but it was sort of a very illogical type of approach.

I think that my assumption is likely – high likely, they're probably going to move away from that approach. I think that we'll have to wait and see what their model looks like. Obviously, they had some other elements in the model that had nothing to do with the notching approach. And I would expect some of those to maybe continue, maybe with some modifications based on feedback.

But my sense is that notching approach that they took before will probably not – will not persist, and I doubt they'll even have that kind of notching approach. We'll have to wait and see what they do as they're assessing structured products or things they don't rate. But I think they're – they totally get I think the market feedback that

they got and are, I think, highly likely to move away from it. But again, we will know in the next probably a month or two.

The other question you had, I think, was how do we think about the preferred market? And, when it's open in the – and you can get deals also at decent levels, we find it actually very attractive to tap the preferred market because up to a certain level, which is often around 15% of total capital, we get full equity credit from the rating agencies for it. So where we can and where markets permit, we really try to keep that 15% preferred to capital ratio, keep that bucket relatively filled. That's not always possible because sometimes the market just doesn't look that great. But when the market's open, we do, we do like to issue, and when we can, we like to kind of keep it at that 15% preferred to capital type of ratio.

And as we said during the call, probably more than once, we also keep our debt leverage at that mid-teens level as well, 15%, maybe 16% debt to capital. So total between the two is probably going to hover around, call it, 30% between debt and pref as a ratio to capital.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Perfect. Thank you very much.

Q

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

Sure.

A

Operator: The next question comes from Ravi Prakriya from Junto.

Ravi Prakriya

Analyst, Junto Capital

Hi, there. Thank you. I think you mentioned new money yield on the assets side maybe in the 7% area at present. I wonder if you could share anything similar on the cost of funds relative to the – I think the 2.47% or 2.49% in Q4. Thank you.

Q

Martin P. Klein

Partner-Apollo Global Management, Inc. and Executive Vice President & Chief Financial Officer, Athene Holding Ltd.

Yeah. I mean, like right now here in the first quarter, it kind of depends on the channel and the maturity, whether it's a short-term FABN or a longer PRT deal where MYGA product – three-year MYGA or five-year MYGA versus a fixed indexed annuity. But the cost of funds is probably in the – anywhere from the low- to high-4% to the low-5%. So kind of depending on the channel and the tenor and the amount of features it has, somewhere in the 4.5% to, call it, 5.5% cost of funds Zip Code.

A

I would note that what obviously matters for us is the net spread and the net spread in the fourth quarter was actually as attractive – more attractive than it was during the earlier part of the year. Things are getting a little bit tighter here in the – things got a little bit tighter here in the first quarter, but still very attractive. So our product pricing spreads are intact. We expect from an overall earnings standpoint that our spreads will be this year – kind of our normalized SRE will be 135 to about 140 basis points. And that would be consistent with kind of how we're pricing business.

Operator: This does conclude today's portion of Q&A. I will now return the floor to Noah Gunn for any additional closing remarks.

Noah Gunn

Managing Director & Global Head of Investor Relations, Apollo Global Management Inc.

Great. Thanks, everyone, for joining today. Really appreciate your time and attention to our business this afternoon. If you have any questions that we did not get to, please feel free to reach out to us directly and we'll follow up. Appreciate the time.

Operator: This does conclude today's Athene's fixed income investor update conference call and webcast. Please disconnect your lines at this time and have a wonderful day.

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