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Athene Holding Ltd. (ATH.PRA)

Investor Meeting - Fixed Income

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We're about to begin. Welcome to the Athene's Fixed Income Investor Update Conference Call. At this time, all participants have been placed in a listen-only mode and the floor will be open for questions following the presentation. [Operator Instructions]

I would now like to turn the call over to Jeanne Hess, Vice President of External Relations at Athene. Please go ahead.

Jeanne Hess

Vice President, External Relations, Athene Holding Ltd.

Thanks, Jamie, and welcome, everyone. 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. Additional information on the business in this quarter's results are available in the latest fixed income investor presentation posted this morning to Athene's Investor Relations website. There you will also find Athene's financial supplement.

Joining me this morning are Jim Belardi, Chairman and CEO; Grant Kvalheim, President; Marty Klein, Chief Financial Officer; and Noah Gunn, Global Head of Investor Relations for Apollo. Noah?

Noah Gunn

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

Great. Thanks, Jeanne. Athene's record full year results were reported earlier this month as part of Apollo's fourth quarter earnings release. Athene's performance in 2023 was nothing short of exceptional, and the business continues to be a significant contributor to Apollo's growth outlook and franchise value as a \$60 billion-plus market cap company in financial services.

Since we started hosting these calls a year ago, we've observed a market improvement in our credit spreads, and we look forward to further tightening to even better reflect Athene's strong financial profile and relative positioning. We appreciate the time and attention our fixed income investors have committed to understanding our business, and we intend to maintain a high level of engagement and transparency.

Our effort continues with this morning's update. Jim will provide commentary on Athene's robust performance, the vital role the company plays in today's retirement landscape, and the investment portfolio. Grant will then take you through Athene's organic channels, which continue to drive very attractive and diversified growth. Marty will then discuss key financial highlights, including capital and Athene's sidecar program, as well as our approach to accessing the capital markets.

Following these remarks, we look forward to being helpful and fielding any questions you may have.

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.

Hi, thanks, Noah, and good morning, everyone. 2023 was a truly exceptional year for Athene. We generated industry-leading organic growth and stellar financial results, demonstrating the power of our modern retirement services model. Total gross inflows across our channels were an impressive \$66 billion, \$63 billion of which were sourced organically, a new annual record and the ninth consecutive year we've underwritten a greater amount of new business. Importantly, all of the new business we are putting on is aligned with our mid-teens or better return targets, and today's environment continues to be an attractive time to be growing organically.

Our savings products are solving a fundamental and growing need in the marketplace, retirement income. This is a large addressable market, and there are massive tailwinds helping to fuel demand for what we provide. Consider that in the US, 11,000 people turn 65 every day, resulting in more than 4 million people in 2024 alone, and even more are expected in 2025. This is our target market as the average age of our customers is 69-years old. Also consider that 77% of Americans have no formal retirement plan, and nearly half of baby boomers have no retirement savings.

Exacerbating the problem is that far fewer employers offer defined benefit plans in favor of defined contribution plans, which puts more responsibility on individuals to prepare for retirement. Athene offers solutions to address these challenges.

The higher interest rate environment has also been a tailwind, increasing demand for annuities, as consumers recognize the strong value proposition of these products. Core benefits like tax deferral, principal protection, and strong guaranteed rates of return, all become even more highly valued in an uncertain economic environment.

Looking across the annuity market, the level of guarantees and upside opportunities for the average annuities are the highest they have been in 30 years. These external influences, combined with the strategic progress we have made towards expanding distribution and delivering a tailored product suite resulted in record annual retail volumes of \$35 billion.

This tremendous result not only set a new high watermark for Athene, it also represents the all-time high for annual and retail annuity sales of any type across the entire industry, exceeding the previous record of \$31 billion. Importantly, we accomplished this impressive feat without selling any traditional variable annuities.

As we've discussed in the past, our model is differentiated by a few fundamental elements that allow us to win in all-weather market conditions. First, we have a long term track record of asset outperformance, driven by the strategic partnership with Apollo. Athene is the primary beneficiary of Apollo's capabilities in private investment-grade asset origination that help drive excess return, which we're able to share with policyholders. In addition, Apollo was able to source third-party sidecar capital to support continued growth of our platform.

Finally, Athene has a lower expense base compared to others in the industry, driven by a structurally efficient business model and a lack of legacy liability issues. Combined, these elements allow us to provide competitive product pricing that customers find increasingly attractive, while delivering superior profitability to Athene.

In 2023, we demonstrated the power of our model by delivering year-over-year expansion in our net spread and record annual spread-related earnings of \$3.1 billion. We have now achieved our five-year earnings plan in just two years.

We continue to see the business generating attractive earnings growth as we've consistently done over the prior 14 years. We expect to generate organic volumes of \$70 billion in 2024, fueled by the growing need for retirement income and our strong market positioning.

Supporting this expected growth is our fortress balance sheet. Athene is exceedingly well capitalized with \$22 billion of regulatory capital and \$2.6 billion of excess equity capital. To put this in perspective, Athene is the largest company with ratings up to A+ in the US life insurance industry. But interestingly, the amount of excess capital we hold exceeds its AA level and we are committed to further improvements in our ratings profile.

We are pleased with the increasing recognition we have received from the rating agencies over time, having gone from unrated at our founding in 2009 to BBB+ in 2013, A- in 2014, A in 2017, and A+ at the time of the 2021 merger announcement. Most recently, S&P affirmed our holding company rating at A- with financial strength ratings remaining at A+ at the OpCo level. Our credit is strong and underscores our efforts in building the business in a prudent and disciplined manner.

Turning to our investment portfolio, gross invested assets ended the year at nearly \$280 billion, comprised of 95% fixed income and 5% in alternatives. In terms of quality, 97% of our available for sale fixed maturity securities are investment-grade, designated NAIC 1 or 2. In the higher interest rate environment, we have been taking the opportunity to deploy into higher rated securities on the margin, serving to upscale the portfolio even further from its already strong position.

As many of you are aware, Athene has maintained a longstanding and strategic allocation to floating rate securities, while remaining duration matched. Based on the construction of our portfolio, floaters help achieve our ALM objectives, while also mitigating the unlikely potential of elevated surrender activity. However, with the prospect of a Fed easing cycle on the horizon, we believe it is prudent to reduce the size of our floating rate balance and have already taken some steps to do so. We can swap floating rate assets to fixed rate, swap existing liabilities to floating rate, or issue on the margin liabilities in floating rate format, which often comes in the form of funding agreements.

Net floating rate liabilities – net of floating rate liabilities, we reduced the net balance of floating rate assets from \$27 billion in September to \$25 billion as of year-end. And we expect to reduce it by an incremental \$5 billion by the end of the first quarter.

Turning to the investment backdrop, last year provided many attractive opportunities for putting money to work. We had \$55 billion of gross deployment and achieved better annual yields without taking on incremental credit risk. For example, the average yield on our total fixed income purchases in 2023 was more than 70 basis points higher, net of fees, than the average BBB corporate bond index.

Within the year's deployment activity, there was \$17 billion of investment-grade credit directly originated by Apollo, with attractive excess spreads of approximately 240 basis points above comparably rated public corporate benchmarks. This highlights the benefit of having access to Apollo's asset origination ecosystem that's equipped to source private investment-grade credit, allowing us to capture compelling levels of excess spread.

Our 2023 purchase activity was mainly in three categories. First, we sourced the mortgage loans, residential and commercial, which accounted for approximately 37% of our purchases, as we continue to see very strong relative value in absolute yield, with comparably high credit quality in this asset class.

Second, we found value in public and private corporate bonds, which accounted for approximately 28% of our purchases.

And third, we found attractive opportunities in structured securities like CLOs of asset-backed securities, which accounted for roughly 22% of our purchases. As a reminder, Athene focuses on the senior investment-grade tranches of these securities, which benefit from significant credit enhancement and enable us to earn incremental yield at a similarly high ratings profile compared to our corporate purchases. Importantly, 99% of our CLOs and approximately 95% of our asset-backed security investments are investment-grade.

In closing, Athene is firing on all cylinders, while continuing a track record of prioritizing profitable growth. We are extremely pleased with our accomplishments in 2023 and energized for the opportunities ahead of us in 2024. I would like to thank all our employees for their high performance, dedication and commitment.

With that, I'll now turn it over to Grant.

Grant Kvalheim

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

Thanks, Jim, and good morning, everyone. The breadth and diversity of Athene's organic channels continue to differentiate us in the market. According to the latest available LIMRA data, Athene leads the industry in total annuity sales and also in pension group annuity sales. We had our best year ever in our flow reinsurance business with wins in the US and in Japan. And we returned to the FABN market in January, thanks to the tightening of our spreads. We've seen meaningful spread improvement, but still believe there is more work to be done.

Let me step through each of our channels to provide detail on what we are seeing across the business. In our retail annuity business, inflows were a record \$13.4 billion in the fourth quarter and \$35.3 billion for the full year, underwritten for strong returns. Our efforts to expand distribution continue to bear fruit as we make further inroads with financial institutions. More than 70% of retail inflows in 2023 were from banks and broker dealers, and we are continuing to see a mix shift towards financial institutions.

Athene's third quarter launch at JPMorgan Chase was the most successful platform launch to-date. In the fourth quarter, they were our number one distributor. We continue to add new distribution and expect to add several large money center banks and broker dealers in 2024. At the halfway mark in the first quarter, we've issued \$5.75 billion of new retail annuity volume. Our attractive product offerings ensure we are well-positioned to provide guaranteed income to retirees.

We expect that more than 50% of the \$70 billion in forecast total organic volume in 2024 will come from the retail annuity channel with natural quarterly fluctuations based on industry activity. Note of caution, I would not take the quarter to date number and multiply by two. We will have a strong first quarter, but part of the excellent start to the year is processing business that was submitted in December.

Turning to flow reinsurance, inflows in the quarter were \$2.8 billion and a record \$10.5 billion for the full year, with fixed and fixed indexed annuities in Japan, comprising almost two-thirds of the total. As of year-end, we had a record number of active flow cedence with four in Japan and three in the US. Japan-based insurers are

increasingly seeking safe yield, which presents sizable in-force and new business opportunities for Athene and Apollo.

We offer the capabilities and expertise required to support the strategic objectives of these insurers and consistently provide solutions across reinsurance and asset management.

In November, we executed a block reinsurance transaction with FWD Life Insurance Co. Limited, a Japanese insurer, where Athene reinsured an in-force block of whole life and retroceded the mortality risk to Swiss Re. This was our first life insurance reinsurance transaction.

In our pension group annuity business, Athene was the number one issuer in 2023 with total volume of \$10.4 billion. It is noteworthy that since the inception of our pension group annuity business in 2017, we have now exceeded \$50 billion in volume, a significant achievement, demonstrating our track record of providing group annuity solutions to blue chip clientele. We continue to have line of sight into a healthy pipeline of potential activity.

Turning to our funding agreement channel, where fourth quarter inflows were \$2.3 billion, driven by two secured funding agreement or FABR issuances, this capped a full year result of \$7.2 billion for 2023, which was lower year-over-year due to our decision to not issue any FABNs given comparatively wide spreads.

As I mentioned earlier, we are happy to have returned to the market in January at tighter spreads, issuing a \$750 million five-year note, our first time executing in the US FABN market since March of 2022. Altogether year-to-date, FABN business has totaled \$2.7 billion in four transactions and we look forward to further opportunities in multiple currencies in 2024. Importantly, only the five-year was a broadly syndicated offering. The other transactions have been us reacting to reverse inquiry from investors.

In closing, to echo Jim's sentiment, demand for retirement savings product remains high, and the environment to underwrite new business at or above target spreads remains very attractive. We're excited by the opportunity set across our growth channels and are increasingly well-positioned amid dynamic and evolving markets.

I'll now turn the call over to Marty for a detailed discussion of our financial results.

Martin P. Klein

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

Thanks and good morning, everybody. Athene's financial engine continued to generate strong results in 2023, producing record inflows, earnings and asset levels. Significant demand for our products across our channels, expansion of distribution partners and counterparties, and our disciplined approach to running our business allowed us to continue to achieve profitable growth in our channels, while meeting or exceeding target returns of mid-teens or better.

Athene has never been a near-term profit maximizer as witnessed by our discipline and standing down from certain opportunities that don't meet our profit or risk criteria, such as our choice to stand down from the public FABN issuance of 21 months until January, as Grant just mentioned.

As Jim alluded, we are finding the current environment to be a particularly good time to write new business. To generate our targeted returns, we seek to earn approximately 110 basis points to 115 basis points of spread at the product level through the cycle. Our new business we added in 2023, the underwritten spread was even more attractive at 125 basis points. Combined with the other components that bridge to SRE, such as our return on

capital supporting the business, sidecar fees and financing costs, our on the margin SRE spread exceeded 170 basis points for 2023 new business, accretive to our in-force spreads.

For the year, spread-related earnings increased by an impressive 26% due to robust organic growth trends and higher floating rate income, partially offset by lower alternative net investment income. In the fourth quarter, SRE decreased sequentially due to lower net spread, largely reflecting the non-recurrence of a one-time gain during the third quarter, as well as lower alts returns, primarily driven by investments in certain insurance affiliates. Net spread remained strong at 141 basis points.

Turning to Bermuda, our operations there provide an efficient means of raising third-party capital, even though we are a full US taxpayer on our share of earnings. In December, the government of Bermuda enacted the Corporate Income Tax Act. As a result, Athene recorded a \$1.9 billion deferred tax asset and expects to utilize this over the foreseeable future to ensure that our Bermuda companies pay no additional cash tax during that period over and above the US 21% corporate income tax, to which we are already subject.

Athene will continue to be a US taxpayer, and we expect for the foreseeable future to not incur incremental tax from other existing tax regimes or frameworks. We did not observe any abnormal surrender activity outside of our forecast ranges here. And continue to observe highly predictable policyholder behavior. Our annualized core outflow rate decreased sequentially to 11% in the fourth quarter. As a reminder, more than 80% of Athene's liabilities are either non-surrenderable or protected by withdrawal charges. Our projected annualized outflow rate disclosure has been updated for 2024 and can be found on page 24 of our fixed income investor presentation.

Looking forward, in line with our long-term growth expectations for the business, we expect to generate low double-digit SRE growth in 2024. This is based on a few underlying criteria. First, in terms of basis, the growth outlook is built upon SRE excluding notable items and assumes an 11% return on Athene's alts portfolio, in line with our long-term historical experience.

Second, our growth outlook is also based upon adjusting for the approximately \$70 million of excess earnings in 2023 on assets related to the ADIP items and the Venerable recapture, consistent with prior guidance. We expect over \$70 billion of gross organic inflows sourced across our four channels, coupled with an estimated outflow rate of approximately 12%, leading to low double-digit net organic growth.

Fourth, we forecast net spreads between 160 basis points and 165 basis points, excluding any notable items and assuming an 11% return on alts.

Turning to capital, in 2023, we continued to prioritize 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 seek to grow within our ability to maintain AA capital levels and mid-teens adjusted debt to capital ratios.

We have multiple sources of capital to support our industry-leading growth, including earnings generation, capital release from runoff, capital markets issuance, and on-demand equity capital from our sidecar program.

Our ACRA sidecars are key to our business model and we plan to continue to use this on-demand long-term equity capital, provided by ADIP as an efficient way to fund growth, while maintaining balance sheet strength. Since inception in 2019, we have deployed more than \$6 billion of ADIP capital at mid-teens or higher returns.

In 2024, ACRA will continue to support organic business volumes as it did in 2023. Beginning in the third quarter, we also have embarked on a flow reinsurance relationship with Catalina and expect to cede a modest amount of new retail business to it over the course of the year. Athene's relationship with Catalina is similar to ACRA, in that Catalina also provides third-party equity capital to help fund our organic growth, with Apollo managing assets for Catalina, similar to ACRA.

Athene finished the year with \$8.1 billion of total deployable capital comprised of excess equity capital, which includes the \$600 million benefit from our December debt offering, untapped debt capacity of approximately \$3.9 billion and \$1.6 billion of available undrawn third-party capital within ACRA.

Athene ended the year with a preliminary consolidated RBC ratio of 416%, offshore RBC ratio of 406%, and an onshore RBC ratio of 394%. Athene's balance sheet metrics continue to compare favorably with an adjusted debt to capital ratio of 14.5%, well below the 27.1% of certain AA and A rated insurers. Maintaining our target leverage profile as we continue to grow prudently is a key priority. Investors should expect to see Athene continue to access the capital markets to help fund or pre-fund growth, while observing the same leverage targets of mid-teens adjusted debt to capital.

Final comment on our annual asset stress test. In the coming days, we expect to publish the latest iteration, continuing our cadence of producing this analysis at least annually. This will be the sixth edition of Athene's stress test reporting since we began disclosing this information as part of our 2018 Investor Day. Athene continues to be committed to a very high level of transparency, and we hope that investors appreciate the level of information that Athene provides, which we think goes far beyond what others choose to publish.

To wrap up, we're very pleased with our stellar financial and operating performance in 2023 and are very excited to continue this momentum in 2024. Thanks for your time today.

And we look forward to taking your questions.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] [Operator Instructions] Thank you. We'll go first to Maura Farley with BlackRock.

Maura Farley

Analyst, BlackRock

Q

...during the call, just a couple of questions for me. First around regulation. If you could just speak to a few of the recent regulatory proposals, so in Bermuda, proposed changes to some of the [ph] big ER (00:30:06) calculations. And then, more recently from the NAIC around asset adequacy testing for reinsurance by cedants and the potential need for cedants to post additional reserves if that proposal goes through. So, if you could just speak to the potential impact on Athene and any of the relationships that you have with your cedants as well as potential capitalization impacts if those proposals are implemented? Thanks.

James R. Belardi

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

A

Marty?

Martin P. Klein

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

A

Sure. Thanks for the questions. With respect to Bermuda, our team in Bermuda and a number of folks at Athene's senior management have been working very closely in close coordination with the BMA as they develop their new capital regime, which is, in effect, really starting, I think, this year.

I think with pressures from EIOPA and just other observations from those around the globe, I think the BMA has done a pretty good job of updating their capital model. It's much more rigorous than it was before, and it was pretty rigorous in the past. We do think that it will probably become a binding constraint for some on the island. And so, they'll have to address that. I think for Athene, as we've been managing our business to AA capital standards and a minimum of 400% RBC, the old model is not binding, and the new model, while requiring a higher level of capital, is still not binding for us. We don't expect any impact for us on our operations, on our capital levels in Bermuda.

Shifting to the NAIC, obviously a number of things are being discussed at the NAIC, including the asset adequacy testing and reinsurance by cedece. You know, I think this is still in very early stages and is being very actively debated in the industry. I think for Athene, we manage our reinsurance relationships as we do everything. We're really managing to AA standards and US standards.

So, obviously, what is being promulgated at the moment is particularly detailed and – but we think we'd be able to comply. But I also think this is in the very early stages and is likely to change quite a bit. Just as a reminder, we do cash flow testing on each of our legal entities every single quarter, which is very unprecedented for others in the financial services and insurance industry. Hopefully that helps.

Maura Farley

Analyst, BlackRock

Q

That's very helpful. And if I can sneak one more and just before I hop into queue. If you could just touch on the redomicile to Delaware, help us understand why that occurred?

Martin P. Klein

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

A

Sure. It's been just a very natural outcome from the merger we had with Apollo. When Athene first got set up a number of years ago, we set up Bermuda holding company and had Bermuda operating subs that enjoyed tax benefits. But with the merger with Apollo a little over a couple of years ago now, we now are a full US taxpayer. So, it was just very natural for us to move our holding company from Bermuda to become a US-domiciled company. So, one of the advantages, for example, is now senior debt that's issued by the Athene Holding company is now tax deductible. When we were not a taxpayer, that didn't matter, but now it does.

Maura Farley

Analyst, BlackRock

Q

Okay. That's really helpful. Is there any change in terms of how you kind of manage the regulatory capital related to that?

Martin P. Klein

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

A

No change at all.

Maura Farley

Analyst, BlackRock

Q

Thank you very much.

Operator: We'll turn now to Jeff Bernstein with Stonebridge.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Q

Hi. Thanks. Couple of things. The growth – organic growth that you've laid out, is that a function of the overall market growing or is it taking market share or both?

James R. Belardi

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

A

Grant?

Grant Kvalheim

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

A

Yes. I'll take that. Probably a little of each. We continue in – we don't see that we're kind of bounded from growth in any of the organic channels that we're in. I would say in the pension group annuity business, it's probably more growth of the industry than increasing market share given the share that we already have. But in our other channels, it's a combination of an ability to grow market share and/or market share growth – sorry – total market growth.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Q

Thank you. And [ph] since more (00:34:48), I got two questions. Regarding Athora, could you just refresh us as to how much of Athora is owned by Athene? How much is owned by Apollo? And I know that you indicate you have future commitments of around \$500 million as of September 30. Maybe update us on that, like the nature of the commitment when that might occur. Thank you.

James R. Belardi

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

A

Marty, you want to take that?

Martin P. Klein

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

A

I don't have the exact percentage of ownership of Athora, but it's about a little over \$1 billion, \$2 billion, \$3 billion in total for Athene. Apollo owns a bit, but it's very de minimis amount. Athora is obviously a company that Athene way back had bought when it was a small German run-up business. And then, we spun it out a few years ago to be a separate company, given the complexities of managing the business and the ability of a separate management team to focus on it.

Athora is decently capitalized and has done a number of raises. We do have this \$500 million obligation that we expect to continue on and we don't really expect to see our exposure with Athora increase much though, however, over time.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Q

Thank you.

Operator: We'll turn now to Bill Katz with TD Cowen.

Bill Katz

Analyst, Cowen & Co. LLC

Q

Okay. Thank you very much for taking the question this morning. Appreciate the update. Maybe just a two-part for me. I saw some of your footnotes that your 2023 credit quality update will be out sometime in the near future. I just wonder if you could speak qualitatively – quantitatively, excuse me, to what you see – what you saw in 2023 in terms of the core trends versus the industry?

James R. Belardi

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

A

Well, I'll start and Marty and Grant can chime in. Core trends versus the industry, [ph] were (00:36:42) like, for us, we saw some of our impairments, probably a large portion of our impairments for the year were in corporate bonds. Structured securities performed great. We had some idiosyncratic risk, which led to some impairment in corporate bonds, specifically regional banks. And, yes, I don't think we were the only company experiencing that.

But that's, I think, more or less behind us now. And look, we'll experience impairments on an ongoing basis. But, we've traditionally had lower impairments than the industry. We don't have the data for 2023 yet for the industry. But the other hot point that people bring up is commercial real estate. And I think last year's impairments for

commercial real estate were lower that have been Athene since 2018, have had some, though. Did not originate anything in office during the course of 2023. So, I think, we feel pretty good about it. We're really happy we're not in the equity in our commercial real estate portfolio, just in the debt, which is diversified across sector and location. So, I don't know if that exactly addresses your question, but those are my comments.

Bill Katz*Analyst, Cowen & Co. LLC*

[ph] Thank you. Okay (00:38:13).

Q

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

Go ahead, Marty.

A

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

Over the course of 2023, I'd say that our overall portfolio had a slight increase in quality. If you look at our percent of NAIC 1 and NAIC 2 in our fixed income portfolio, it's now 97%, a little bit higher than what it had been a year ago. As Jim mentioned, in the commercial real estate side, we had not originated any new office. So, office like a little over a year ago is maybe 25% of our portfolio, that has shrunk slightly to about 22% of our portfolio. LTVs have decreased about a 1 point or 2 points to about 54% right now across the portfolio. So, year-over-year, I'd say that a slight increase in overall portfolio quality.

A

Bill Katz*Analyst, Cowen & Co. LLC*

Those comments are helpful. And then just quick follow-up, just I think you guided within your net spread, which is consistent to what we heard from Apollo a few weeks ago to 11% return in the alts platform. And just given where we are in the cycle and the scaling of the platform, does 11% still make sense? And how do you think about maybe the upside, downside risk to that as we look ahead? Thank you.

Q

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

Marty?

A

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

We do think it makes sense. I think that AAA going forward is likely to allocate a little bit to some private equity that Apollo has, which is a higher return. A little bit different risk profile, but a higher return. So, we still think that 11% in aggregate is overall. I would note that as you've probably seen, our alts portfolio at Athene this year and particularly, this quarter as an example, the fourth quarter was quite a bit below that. But if you look underneath that, the AAA portfolio has done pretty well, close to target. The origination platforms that Apollo has in aggregate have done very well, one or two little pockets of weakness such as Aqua Finance, but in aggregate, have done extremely well.

A

The weak spot for Athene has really been our, as I mentioned in my remarks, our investment in some of the insurance platforms, such as Catalina, Challenger, which is an Australian company, that we have a common stock investment in, and Athora, which have continued to underperform.

Bill Katz

Analyst, Cowen & Co. LLC

Thank you.



Operator: We'll turn now to Patrick Davitt with Autonomous Research.

Patrick Davitt

Analyst, Autonomous Research US LP

Hi. Good morning, everyone. You highlighted the record retail sales last year. So, how are you thinking about that channel in 2024, if rates are coming down 75 basis points to 150 basis points? And in particular, on that theme, I'm curious about your thoughts on the competitiveness of fixed indexed annuities versus variable annuities and/or RILA in that environment? Thank you.



James R. Belardi

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

Grant?



Grant Kvalheim

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

So, a brief history lesson. When we started our retail annuity business, total size of the market was about \$225 billion, right, gone back a decade ago. And 70-plus percent of the total market was variable annuities, right? Roll forward to last year, \$385 billion market and variable annuities 15%, right. They're kind of like on a death march to oblivion. And what's grown is fixed and fixed indexed and RILA, the products that we compete in. And we think those trends are continuing. So, it's great to be in the parts of the market that are expanding.



The impact of rates, we don't know. During the history that Athene has been in business, we had always up until the recent rise in rates, been operating very effectively in a very low rate environment. Rates impact the products differently. I'd say RILAs and FIOs are more a function of equity market returns, and FIOs have basically been growing year-on-year, with the exception of the COVID years of 2019 and 2020. There's just systemic growth in there because of the issues that Jim raised about the amount of retirees and the fact that those products address what people used to get in the defined benefit pension plans.

So, I don't think FIO sales and RILA sales are so much a function of rates. I think where it would impact sales is in fixed annuities, in the MYGA business. To what extent? It's really hard to say for a 75-basis point move. They're still very attractive. I think one of the things that surprised us a great deal last year is that as rates were rising, banks preferred selling MYGAs and earning the fees to competing for deposits. That changed a little bit with the regional bank crisis, but banks are the biggest distributors of MYGA product, and I think sales will still be pretty strong even in the range of what you laid out of a 75 basis point down move in rate.

Patrick Davitt

Analyst, Autonomous Research US LP

Thank you.



Operator: We'll go next to Ryan Krueger with KBW.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey. Thanks. Good morning, guys. I had a couple of questions on capital generation. I saw in the slides that there was \$1.7 billion of capital released from runoff in 2023. Is that a reasonable range to expect going forward?

James R. Belardi

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

A

Marty?

Martin P. Klein

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

A

Hi, Ryan, it's Marty. I would just say we gave our kind of – if you look at that slide 24 or 26 on our decrement rate, I think if you look at that decrement rate and apply it to the in-force we had the beginning of the year, and then assume, call it, ballpark, 8% of capital that was released, I think that's a pretty decent way to look at it.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks. That makes sense. And then, just a related question. Any color on statutory earnings generation in 2023 in kind of rough range going forward in the near term?

Martin P. Klein

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

A

So, our statutory spreads are really strong, stronger than our GAAP spreads, except for strain from growth, which I'll come back to, but if you think about strain from growth where, for example, on the pension group annuity business and different deals have more strain than others, but we – and this is an industry phenomenon, we'll end up having set up statutory reserves that are higher than the actual deposits we get in. That number can be anywhere from 3% higher to 5% or 6% higher. So, you set up a very high reserve, larger than the deposits that creates that surplus strain. Then, that gets released over the life of the business. So, yes, we've done a lot of PGA business as an example.

And so, in 2023, for example, our statutory earnings saw a lot of strain from that, also saw strain from our fixed annuity growth because you get this quirky valuation rate phenomenon. It creates some strain. So, we managed our business and plan for our business going forward, assuming a surplus strain and still assume 400% RBC.

I think, we – if you look back at our volumes in 2023 and in 2022, it was – they both represented 30% or 30-plus percent increases from the year prior. So, that's just unprecedented growth, and we've been managing that despite the surplus strain with capital markets issuances, the Apollo mandatory convert.

As we go more to a, call it, 10%, 12% growth level, that begins to kind of go the other way and then surplus strain begins to be more accretive, and so we'll have a whole lot more statutory earnings than what we're able to put to work in our organic business.

But for the last year or two and for the next couple of years as that's recovering, that surplus strain is kind of eating away. But with ADIP capital, capital markets issuances and just our prudent management of the business mix to being, we expect to maintain 400% RBC ratios for the near and medium term.

Martin P. Klein

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

Great. Thank you.

A

Operator: We'll go now to Ben Budish with Barclays.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Hi. Good morning, and thank you for taking the question. I wanted to ask about the floating rate exposure. You talked about your expectations for balances by the end of the first quarter. I was wondering if you could perhaps update your interest rate sensitivity guidance. And I think you last updated after the LDTI implementation changed a couple of quarters ago. And then and sort of the same – under the same umbrella, how do you think about sort of the benefits of – or the liquidity benefits from having the floaters versus the rate exposure? It sounds like from your comments that the liquidity needs are perhaps less than you had anticipated maybe a year ago. So, maybe that's more of a positive. But how do you think about balancing those two? And is there any way that we can think about sort of what the rate sensitivity looks like over the course of the year? Thank you.

Q

James R. Belardi

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

Yes. Sure. I'll turn it over to Marty for the rate sensitivity discussion. But one of the benefits of, as I said in my remarks of having floaters is as policies come off surrender charge and if rates move higher, those policies are likely to go somewhere else, or at least back into a new policy at Athene. And when we have that risk and potentially losing business, it's nice to have another part of the portfolio, namely floaters in a higher rate environment, yielding more. So that's what we mean by disintermediation – mitigating disintermediation by higher income from the floaters. But as far as sensitivity, I'll turn it to Marty.

A

Martin P. Klein

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

Listen, that sensitivity we published in our 10-Q and it's for floaters, for example, it's like \$50 million to \$60 million, I want to say. I think, as Jim mentioned, we are bringing down our floaters. So that sensitivity, we will update when we get past the first quarter or into the first quarter and provide that in our disclosures with our first quarter call. But basically at year end, it's kind of where it had been the last couple of quarters. But again, that will shrink we expect over time as we reduce that floater portfolio.

A

Martin P. Klein

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

Got it. Thank you very much.

A

Operator: We'll go next to Brennan Hawken with UBS.

Brennan Hawken

Analyst, UBS Securities LLC

Good morning. Thanks for taking my questions. You flagged that some of the alternative investment returns this quarter was driven by weakness in insurance investments. Could you provide a little color what drove that weakness and how much of that could sustain in the future?

Q

James R. Belardi

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

A

Marty?

Martin P. Klein

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

A

Sure. They're all different reasons. So, it's very idiosyncratic, depending on the position. So, I'm not going to go through everyone, but I would just say that they're all kind of different. So, Catalina is maybe the one that I'll speak to most directly. It's a company that we have an investment in, as a number of others do. It's a company that has done PMC runoff business acquisitions, either through acquisitions or through reinsurance.

And it's in a position now where it's really no longer able to really compete and win new business, but yet it's sitting on a lot of excess capital. So, it's had historically, the last year or two, a kind of a bloated cost structure, not doing any new business and sitting on a lot of excess capital. So, it's really had a pretty mediocre and slightly negative return.

Part of that benefit was Catalina, for example, of us reassuring business to Catalina is really twofold. It benefits Athene, because it provides capital from Catalina that kind of helps fund our business so we can keep a strong balance sheet. But it also benefits Catalina quite a bit because it's a way for Catalina to use some of this trapped capital it has and deploy it in profitable spread business coming over from Athene and put that to work and improve its financial profile.

So, I think in the case of Catalina, over the course of this year, it'll – I think, those returns to go from what have been slightly negative to a little bit positive. And I think we're getting into next year and those returns should really [indiscernible] (00:51:16) have more of our organic business in the business, get some more appropriate returns.

I think, in the case of Athora, which has also been a fairly weak performer for us the last quarter or two, I think that's really more of an anomaly. It has been – after a relatively slow start over the last couple of years, has done pretty decently, but the returns, as it's been marked, have been less strong. But we kind of expect that to begin to correct.

And then we had some things like Venerable, which in the quarter – in the fourth quarter, it was negative, but Venerable has been one of our strongest oppositions ever, but it does have some volatility. So, it just happened to be negative in the fourth quarter. But I don't think that's indicative of any kind of long-term trend. It's been one of the strongest alts we've had we continue to expect that to be the case.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Great. Thanks for that color. And then just one more for me. So appreciate we shouldn't multiply the quarter to date volume by two, as you suggested. But, is there like a seasonal rule of thumb in 1Q where maybe like the first half of the quarter represents 60% or two-thirds of the quarter? Any sort of general historical averages might be helpful there.

James R. Belardi

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

A

Grant?

Grant Kvalheim

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

Not really. I don't think it's that consistent. So, I stand by the comments that I made.

A

Brennan Hawken

Analyst, UBS Securities LLC

Okay, worth the stab. Thanks. Thanks anyway.

Q

Operator: We'll return now to Maura Farley with BlackRock.

Maura Farley

Analyst, BlackRock

Hi. Thank you so much for doing the follow-up question. I'm wondering if – you've talked about the opportunities in the annuity channels a few times. Can you just highlight what Athene's kind of competitive edge is in that channel or how you've been able to expand your market share there?

Q

Grant Kvalheim

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

Sure.

A

James R. Belardi

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

Grant, you can talk about how we win.

A

Grant Kvalheim

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

Yes. Let me talk about how we win. And look, I don't think it just applies to our retail annuity business. I think it applies across Athene. I think we've built a competitive moat that has a number of factors to it. Jim's talked about the benefits we get from being part of Apollo, and that's been true since inception. We've always had a strategic relationship and the incremental yield that we've been able to get through directly originated securities on the platforms they've built is a consistent advantage to us in incremental yield without incremental risk. That's important.

A

You mentioned one of the other ones, which is we operate with lower costs. Our – we have fewer than 2,000 employees. When we bought Aviva – we have fewer employees today than Aviva USA had in 2012 when we agreed to buy them. At which point, they were originating less than \$3 billion in annuities and a small amount of life insurance. Well, for the last year where we originated \$63.5 billion organically and an incremental \$2.5 billion inorganically, and that speaks to our efficiency.

We have distribution efficiencies. We have a smaller wholesaling force selling a lot more product, and so we have lower distribution costs. I think we've got a great culture, notwithstanding the success that we've had, we play to win, we plan to win, we execute to win. And then, we're not still satisfied and we set higher goals the following year.

And I think when you factor all of those things together, it allows us to do two things simultaneously, again, across our businesses, not just in retail. We can be price-competitive and still earn superior returns. And I guess the last

element that I would say is I think we're really creative in product creation, again, across our channels. We consistently win awards in the retail business for the suite of our products. I think we've come up with a number of creative solutions in our PRT and flow business. Even in the FABN business, where we've now executed in eight different currencies, so we've targeted multiple pockets of investors. I think all of these things kind of lead us to believe that we've created a machine that can work in all interest rate environments and across our channels organically and inorganically.

Maura Farley

Analyst, BlackRock

Q

That's super helpful. And if I just kind of put all those pieces together, is it fair to say that in the annuity channel, you're typically able to offer a significantly higher crediting rate than peers or crediting rate that tend to be at the high end of the market when you put together the yield advantage that change as well as some of the G&A efficiencies?

Grant Kvalheim

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

A

It ebbs and flows. I would say there were times last year where in the MYGA business, which was the biggest swing factor in total volume, where we were top of market, I would say more generally it allows us to be consistently top quartile and generally top decile across our annuity offering which is helpful. And again, it's true across the other channels and we're doing that while still generating superior returns.

Maura Farley

Analyst, BlackRock

Q

Very helpful. Thank you.

Operator: Next, we'll return to Jeff Bernstein with Stonebridge.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC

Q

Hi. Thanks. In terms of capital market issuance, you mentioned you have debt capacity. You had the mandatory convert proceeds in the recent senior HoldCo deal. You've been absent from the preferred market for – or the hybrid market, let's just say, for some time. What are your thoughts around that and what are your general issuance plans for the 2024?

James R. Belardi

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

A

Marty?

Martin P. Klein

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

A

Hi, it's Marty. So, we were fairly dormant last year. Didn't do anything in preferred or hybrid, as you know [ph] with (00:57:22) last year. We did do a senior offering at the end of the year. So, we're a little behind. I think that we do want to continue to maintain the same kind of percent levels of our capital with respect to senior debt and hybrid. So, I expect that 2024 could be a – likely would be a much more active year than last year was both in senior debt and in hybrid.

I would note that in hybrid, we certainly like the preferred market. It has very good capital treatment with the rating agencies. But the other thing we are looking at is the subordinated debt market, which we've not really participated in historically. Now, as a full taxpayers, I mentioned earlier, we have tax deductibility of coupons on that type of structure, and it's gotten a little bit more favorable treatment from the agencies.

So, I would expect this year we'll be active both in senior, as well as in hybrid offerings this course of the year. And, again, maintaining those kind of mid-teens ratios that I spoke about during the call. It is really not to just fund growth, but also the prefund growth. When you're dealing over \$70 billion of organic volumes and want to maintain very strong ratios, we think that modest amount of capital markets issuance with respect to the size of our balance sheet is very appropriate.

Jeffrey Bernstein

Analyst, Stonebridge Advisors LLC



Thank you.

Operator: And as we have reached our allotted time for questions, that will conclude the Q&A portion of today's call, I would now like to turn the floor over to Jeanne Hess, for any additional or closing remarks.

Jeanne Hess

Vice President, External Relations, Athene Holding Ltd.

Thanks, Jamie, and thanks, everyone for joining us for today's call. If you have any follow-up questions regarding anything discussed, please reach out.

Operator: Thank you. This concludes the Athene's Fixed Income Investor Update Conference Call and Webcast. Please disconnect your line at this time and have a wonderful day.

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