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PRESENTATION

Noah Gunn *- Athene Holding Ltd. - Head of Investor Relations*

Good morning. Thank you, all, for joining us for this important event. I'm pleased to report that we received a significant amount of interest, as you can tell here in the room. And so in addition to welcoming you all, we'd like to welcome everyone joining us online today. My name is Noah Gunn, and I'm the Head of Investor Relations for Athene as of about 40 days ago. And I can say with confidence that the age-old saying is correct. There were 40 days and 40 nights in order to get to this presentation today. In all seriousness, in the short time I've been aboard at the company, I've witnessed a team that put a tremendous amount of hard work and effort to bring this forward. We're passionate about the business, and we want you to participate with us in the growth ahead.

Today, you're going to hear the speakers tell you about a company which is thriving, dynamic, reaching new heights, and as our mantra says, of course, driven to do more. We've intentionally structured the presentation agenda you'll see to align with our straightforward, spread-based business model. So that means we're going to give you an in-depth presentation on our investment portfolio. We're going to talk about how we source attractive liabilities, both organically and inorganically, and how we do it all on an efficient and scalable infrastructure to ultimately drive best-in-class returns. One of the primary goals in hosting this event is that you all will come away with a greater appreciation for the ways in which we're differentiated.

So in terms of the format for today's session, we have structured dedicated slots for presentations, and we also have ample time to take all of your questions.

Now please join me in welcoming our first speaker today, Athene's Co-Founder and CEO, and my new boss, Jim Belardi.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Thank you, Noah. I'm going echo Noah. Welcome, everybody. It's great to see everybody this morning, and thank you for spending your morning with us as we talk about all things Athene. We're very proud of what we've built and our accomplishments to date, but even more excited and optimistic about our prospects going forward. As a reminder, we founded Athene based on the straightforward and simple business model and opportunistic mindset that I learned about working 20 years at SunAmerica. And SunAmerica was the most successful insurance company in history based on stock price performance. When we started Athene, it was right in the middle of the financial crisis. Spreads were wide, volatility was high. And in particular with the insurance industry, U.S. insurers were taking huge amounts of write-offs. You can see the spike in '08 and '09 on the chart. At the same time, they were taking these write-offs, they were writing huge volumes of fixed annuities and variable annuity business. And the result was a reduction and a significant reduction in multiples and the losses in the volatility locked the insurance industry out of the capital markets, and they needed capital. Result was -- and the financial crisis when we started, both assets and liabilities were very cheap, and we took advantage of that and completed our first 4 acquisitions that brought our assets up to over $60 billion by pricing these acquisitions at 60% of the sellers book value, which is the key ingredient to a successful M&A strategy.

So that was a market background to our founding. What is it now in front of us? On the asset side, there has been a huge shift from active management to passive management, $2.5 trillion. And with passive management, you can't really earn spread. There is no differentiation, no alpha. On the liability side today in the insurance industry, we think there is volumes of mispriced liabilities, company's failure to account for the true cost of funds, the true options they've written and given to policyholders, and as a result, we think there is significant understatement of reserves in the industry. And on the capital side, clear dividends and share repurchases have skyrocketed over the last 7, 8 years. They are continuing to focus on short-term results and short-term share price above all else. And they've had a high and continue to have high leverage maintained in the industry. We think this, we're in the middle of a significant industry restructuring, that's only going to accelerate and the companies that have capital reserves are -- like Athene are going to be the beneficiaries and able to take advantage of these opportunities. Lean in when things are cheap, back off when things are rich, that's been our track record, and that's what we're going to do forward. You can see, we think there is $100-plus billion opportunity just in organic -- inorganic land and the pipeline for these opportunities is robust as I've ever seen it.

Just as a reminder, we're focused on the retirement savings industry just like SunAmerica was. We issue, reinsure and acquire retirement savings products. And the number of people, either in retirement age or planning for retirement, are significantly growing. Those in retirement, who need a number of the products that we offer is going to more than double from 2000 to 2030 to 74 million people. That's a good demographic for Athene. By design, Athene is very different from the rest of the companies in the insurance industry, on the assets, liability and on the operating expense side. I'll mention a couple of them. Look, we think the industry has some version of an outsourced asset management model, which results in no management alignment and managers that aren't really experts in investing for an insurance company's balance sheet. Athene's approach is we've had one asset manager, Athene Asset Management, a subsidiary of Apollo with one client, Athene Holding, not just sourcing and managing assets for that client, but running risk models, forecasts, et cetera, far beyond the scope of a normal third-party asset management arrangement. And maybe most importantly, huge alignment between the asset manager Apollo and Athene, in that Apollo is the single-largest shareholder of Athene.

On the liability side, the industry still emphasizes volume over cost, market share over cost. At Athene, we have no volume requirements. We have targets, no requirements. We try to do what's economically right every day, and the key thing in liabilities is cost, and so we're laser focused on that. And then on cost, I think the insurance industry still struggles from legacy problems. They have some version of bloated infrastructure, tough to come out from underneath that. Athene, partly because of our founding, has a clean balance sheet, a very scalable infrastructure. We can add significant volumes of new business with very little marginal cost.

Another competitive edge for us is our highly experienced and seasoned management team, a number of whom you'll hear from today. We have a combination of management team of deep specific insurance company experience as well as a broad financial services experience. And I'm lucky and honored to work with such a pedigreed and accomplished group of executives every day.

How we've done all so far? Our strategy has yielded very powerful results. One indicator is our compound average growth rate since inception in book value has been 17% per year more than 4x the growth rate in book value for the industry. As I mentioned, we have a straightforward and scalable net investment spread business model. What's shown on this page is the results for the full year 2017. You can see an earned rate of just under 5%, our cost of liability is just under 2%, 84 basis points of other liability costs, 40 basis points of operating expenses. So net investment spread, adjusted operating income 158 basis points at the appropriate leverage and you get to 22.5% Retirement Services operating ROE, far above others in the industry, and that's been our track record in general in the past.

We think we do more on both sides of the balance sheet than others do. We've had significant outperformance on the asset side to the tune of 40 basis points versus peers, I think, over a 3-year period, which I think, as you all know, has been a very, very difficult fixed income environment with low yields, so to outperform by 40 basis points is very, very significant. Lower platform costs, the combination of liability costs, operating expenses and taxes is another 40 basis points better than the industry. So 80 basis points, 12.5x leverage gives you 10 points of ROE outperformance versus the industry. That's very compelling.

Our partnership with Apollo is unlike anything I've seen in my 30 years in the industry. It's unique. It's value add. It's been a huge source of outperformance for Athene in the past and expected to be in the future. It's not just that Apollo manages all of Athene's assets. Apollo has helped Athene significantly in all sorts of other areas, as shown on the page, including sourcing M&A acquisitions, capital market support, asset liability management, et cetera. It is an ongoing great relationship, and we're delighted that they are our permanent partner.

On the liability side, one of our advantages is that we have a multichannel distribution platform. We talked about our opportunistic mindset. Well, a multichannel platform allows us to lean in and source more from the abilities that are cheap, back off from the liabilities that aren't. Some type of liabilities involve pretty much in all different states of the economy. Our 3 organic channels are retail, flow reinsurance and wholesale. And wholesale is a combination of funding agreement backed notes and pension risk transfer. And then the 2 pieces of our inorganic are acquisitions and block reinsurance. The ability to pivot to what makes economic sense is a differentiator for us. Organically priced to mid-teens returns, we've achieved that this year again. Inorganic is mid- to high-teens. So in addition to having an opportunistic mindset, we focus on discipline and profits. And discipline isn't always easy. Couple things here. We've shown evidence of our discipline in the past, both in the organic channel and in the inorganic channel. I mean, just real world example right now, in the organic channel, our funding agreement backed notes we did source $3 billion of that most in -- for most of 2016 and '17. And over the last year, we haven't done any of it because our spreads have widened per the industry in general and it hasn't met our mid-teens returns, so we haven't done anything there.

On the inorganic, I think most of you are aware, a lot of people expected us to buy F&G. But we did our homework in conjunction with Apollo, we couldn't come close to the purchase price, where it finally traded. And I think at the end of the day, while investors may have been disappointed when we explained why we did it and then consummated Voya transaction not that long after at much better returns, I think we got a lot of good points from investors on being careful stewards of their capital.

Asset differentiation. You're going to hear a lot about that today, and it's hugely important at a time when it's very, very difficult to generate alpha. Here is a listing of opportunistic trades on the asset side that have driven alpha generation and widen spreads. I mean, the one I'll mention is in the middle there AAA, AP Alternative Assets. That's the end that needed permanent capital publicly traded vehicle of Apollo that funded Athene at its founding. Back in 2012, Apollo and Athene weren't happy with how AAA was trading, and we came to an agreement that AAA would contribute all of the investments that they've made before they invested in Athene, into Athene in exchange for Athene's shares. AAA was trading in $13, $14 a share. That was about $800 million of capital invested into Athene. Since that happened -- so that was a huge increase in our capital base. We didn't even know we're going to Aviva, but a little over a year later, that capital meant we did not have to raise any money or finance Aviva. And that $800 million that was contributed threw off, 18% return over $500 million of income. And on the Apollo side, AAA not just because of this transaction, but one of the reasons went from trading in the low-teens to the mid- to high-30s. So it's a win-win an example of partnership with Athene -- with Apollo really being a value add for Athene.

You'll notice the last point mentioned on that previous slide was direct origination, which we are focusing on with Apollo right now. And that's important because essentially any alpha from CUSIPs is dead. You can't find it and that's pretty much across-the-board as passive funds has just overwhelmed active trading. What you need to do and what Apollo is doing in conjunction with Athene is building that direct origination. And you can see some examples of it, look, it's better yield for the risk, we think the value is not on the run, liquid, run-of-the-mill assets. It's on the complex, maybe more illiquid assets, but they're not easy to underwrite. You need capability to do so. And in conjunction with that, Apollo is making a big investment that we're talking about in direct origination. In the past, we've taken advantage of industry dislocation at our start and at different points in time. We talked about our acquisition strategy adding over $60 billion at 60% of the sellers book value. That locked in earnings stream from those acquisitions we still benefit from today. And then 4 years ago, we pivoted to not just rely only on M&A and inorganic transactions, but emphasize organic. We got ratings. Now we're up to single A, and we've -- an ongoing generation capability in our organic channel, we're going to do more than we did last year this year, double-digit teens billions per year now. And then finally, so we got by cheap inorganically, we have ongoing organic business. And now as evidenced by the Voya transaction, we've embraced complexity in conjunction with Apollo. We think that transaction and the rudiment to that transaction can form the platform for future transactions like that in the variable annuity space and potentially other sectors of the life insurance industry.

We see an abundance of opportunity. Just in inorganic, we have $100 billion in invested assets now. We have $2 billion of excess equity capital over $2 billion of unused debt capacity. So $4 billion of buying power. We think that can translate into $50 billion of invested assets. We think there is another $50 billion of opportunity in the marketplace that we've identified that we think could be actionable as well, which means, at some point, if we're fortunate, we may need to have even more capital than we have now to really take advantage of the opportunity that's there. It's so big. Our start, when we took advantage of the dislocations in the market, that was our first example of hitting a fat pitch solidly out of the park. We believe the next fat pitch may be coming as well, and we plan to be well positioned to take advantage of it. Consistent with that, we're raising the bar on returns for shareholders. Because there is so much opportunity, we want to make sure that we're getting rewarded adequately for what we're doing. So we're focused on the highest return parts of both organic and inorganic and continue to work with Apollo to source differentiated investment capabilities, which we'll talk more about.

So finishing up my first section, I want to leave you with 4 key takeaways. We are a growth company and very profit driven, structural advantages, very tax efficient, a scalable infrastructure. We create significant value as we've shown in this earlier, significant value on both sides of the balance sheet, and we are a solutions provider to the insurance industry. And finally, we are a disciplined and patient steward of our capital. We think we're very well positioned to take advantage of the opportunities coming down the pike.

So with that, Bill's now going to come up and talk about the -- more about the insurance industry and transition.

William James Wheeler - *Athene Holding Ltd. - President*

Good morning, everybody. Nice to see all of you. Today, I'm going to talk a little bit about what we see in the life insurance industry, and also, how we think Athene is going to continue to compete successfully in that environment. So let me start with a background slide. You see the title here, Fixed Annuities are a Straightforward Business. Now I could have also said, by the way, the spread-based liabilities segment of the life insurance industry, which would include fixed annuities and pension closeouts and liabilities like that. The spread-based liability segment of the life insurance industry is a straightforward business, and it is, okay. There is just 3 elements, right. There is investment income, minus liability costs, minus operating costs that leaves you your profit and that forms the return on the capital needed to support the business, very straightforward. How does Athene do at that business? Well, incredibly well. And the biggest proof of that is, we have a high-teens return on what -- the fixed annuity business, which is remarkable, frankly. How does the rest of the industry do at this business? Not that great, okay. Why is that? Well, let's start with investment income. You heard Jim mentioned just a second ago, the industry has retreated from active management of their investment portfolios, they have either outsourced management to third-parties who are frankly just indexed huggers of public -- corporate bond indexes or they view their investment department as a utility and they're focused on lowering costs, okay. They are not chasing alpha. And what's Athene doing in this case? Well, you're going to hear a lot about it today, but the truth is, we view asset management as a competitive advantage of what we do.

With regard to liability costs, when I'm saying liability costs, I'm talking about cost of crediting, cost of acquisition, timing of liability cash flows, okay. The industry has put out very rich guarantees for which they mispriced, and we see that when we see all the reserve adjustments going on in the industry now. So cost of liabilities for the industry are high. And for Athene, frankly, they're very low. I'm not exaggerating when I say virtually every day we debate what's going on with our cost of funds in different transactions, okay. Are we looking at it right? Could it be lower? How do we change the numbers? It's a huge focus for us so if it doesn't have the right cost of funds, we don't do the deal, whether that's an acquisition or selling new product.

With regard to operating costs, they're high for the industry, right. We all know that. Why is that? Well, it seems like the life insurance industry has difficulty turning scale into cost advantage, right. There isn't the leverage you think you need there. Also, I think when you get a management team that's focusing on one business, let's say, our core business, any other business they do doesn't get the focus, doesn't get the operational attention, and therefore, the costs are high.

So for the industry, the best are performing at sort of low double-digit ROEs, and I think that's probably being kind and it's difficult for them. It's difficult for them to compete. And so why do they compete in these businesses? Well, I'll show you later. The fixed annuity business is growing. It's one of the few areas of the market that's -- life insurance market that actually grows, so they're not that anxious to leave. But the reality is, is many of them are leaving, right. They're leaving these difficult asset-heavy parts of the business, and we'll talk more about that later. So digging a little bit deeper. This wheel represents a typical life insurance general account, and you can see that just about 2/3 of it is invested in corporate bonds, okay. Hard to beat the market when you have this kind of investment allocation. And the other thing I'd tell you is, it's all about actually the other part of the curve, right. In those other strategies or other asset classes, are you pursuing alpha? Or are you just buying the market, right, and buying CUSIPs as Jim says. And the key is, you -- life insurance companies are not pursuing alpha, we are. Also, corporate bonds has not been a great place to be, frankly, and it's not a place to overweigh. Especially over the last 2 years, decline in yields has -- in credit spreads has only put pressure on in-force blocks, it's put pressure on new business pricing, it's made the business what's already a tough business more difficult.

With regard to liabilities, so the industry over the last 20 years has sold a lot of very rich guarantees, long-term guarantees, which obviously, in hindsight, now look very mispriced. And the way they made the math work initially, they made very hopeful assumptions about lapse rates and utilization rates and substandard mortality. And now we're -- the chickens are coming home to roost, and we're seeing that those numbers are not coming true, and so you're seeing substantial reserve adjustments in these categories. And we know the list of horribles here, variable annuities, long-term care, structured settlements, right, those have been -- all been very tough for the industry and destroyed a lot of value.

Well, what does this mean about the fixed annuity business? Now this slide's got a lot enough words on it, but I'll try to take you through it. If you look at the upper left-hand corner, there's sort of a spectrum of products in terms of their -- the mispricing of the liabilities and what's happened and the impact of it. And I think you could argue, LTC should be at the top. I think index annuities with guaranteed income riders, I think, is appropriately placed at the bottom in terms of its sort of financial impact, but doesn't mean there is not an issue, okay. If you look at the bottom little chart here, there are number of key assumptions that are used in setting the guaranteed rider reserves, or the SOP reserves, that includes assumptions regarding lapses, utilization rates, account value growth, mortality rates. What's happened now as the business that was sold a decade-or-so ago or 12 or 15 years ago, when the industry really started, that's now coming out of surrender charge. And we're seeing that the pricing assumptions are not the same with what's really going on in the block, right. There is a disconnect. And so we believe that you're going to start seeing reserve charges in the fixed annuity business because of this guaranteed income rider, and it's going to come. You could only debate the magnitude.

What does this mean for Athene? Okay, that's the upper right-hand segment. Okay, the good news is, first of all, we're not in all those tough businesses, right, like long-term care. If you look at the liabilities we sell today and also what's our in-force consists of, funding agreements, no underwriting risk, pension risk transfer, modest longevity risk. And with regard to deferred annuities, the only segment that really matters here is the guaranteed income riders, we don't sell a lot of that. We never, and we haven't for years, okay. And what we do sell, we think we've priced appropriately. With regard to the in-force we've acquired, remember, Athene is a young company, right. So when we had the opportunity to -- when we acquired those businesses, we had the opportunity to reunderwrite -- reprice the liabilities, and we substantially increased our reserves. So we have already gone through this transition of repricing our guaranteed income riders. We already did it 5 years ago, and I'll point it out when we talk about acquisitions in a minute, okay. So we -- when we say Athene has the best balance sheet in the life insurance industry, this is why, all right. We don't have the legacy liability problems of our peers.

Okay, costs. So quick chart here. You see we're at 40 basis points of G&A expense ratio, that's better than our peer group and that's better, despite, I think, investing more in terms of technology and increasing our capacity as also providing better service to our producers and to our customers. So that's obviously an advantage for us. Secondly, if you look at that bar chart, the 148 basis point expense ratio for our biggest life insurers, it's not really a fair apples-to-apples comparison because obviously, there are in a lot of other businesses, which have different expense ratios. So I'm not suggesting that the difference there is really apples-to-apples. However, it's hard to imagine that the product pricing margins for these companies are wide enough that they can absorb that kind of expense ratio. So they too also have expense challenges. We are the best positioned in terms of operating expenses in the industry and obviously, that helps the ROE.

So when your expense ratio isn't very good, and your ROE isn't very good, what do you do? Well, you grow and you lever. And if you look at the chart on the left, the industry has been very fortunate in that the fixed annuity business has been growing very nicely over the past 5-or-so years. And in fact, if you look at 2018, it's up again very nicely, double-digit industry growth, right, because there is a continuing need from consumers, there is a switch going on between variable annuities and fixed. So it's a good market to be in. So this has masked a lot of problems for a number of carriers in terms of dealing with the financial tension here. At the same time, because their ROEs aren't very good, what do you do? Well, you lever up the balance sheet a little bit, right. Jim showed this chart earlier for us, we just use a select group of companies here, not the whole industry, but it gives you a sense of the contrast in terms of how much capital return is going on to shareholders in the form of dividends and buybacks now versus just a few years ago, right. This is helping EPS, and it's helping ROE. And I guess, it's good in the short term, right, but in the longer-term, not that long frankly, it's making sure there is no capital available to these companies to do acquisitions, and there's going to be a lot of opportunity to do acquisitions, and I'm just about ready to talk about that. The second thing is, we are going to have another downturn in the credit cycle over the next couple of years, not sure when that'll happen. But this makes you -- when you're levering up your balance sheet and you're divvying out or paying back all your free cash flow, that makes you less prepared for that downturn, right, and that's something that everybody should just keep in the back of their mind.

The other thing that's made the whole business much more difficult, of course, is the interest rate environment. We have gone through nearly a decade of what we like to say is financial repression, okay, and it's been extraordinary. Now the good news is the economy has gotten better, the Federal reserve has changed policy, right, and interest rates have moved up. This is creating a window for the life insurance industry to do deals. And what you're seeing is management teams are beginning to restructure their balance sheets, right. They're selling these asset-heavy businesses that are causing them so much difficulty, and we see clear evidence of that. This is a list of transactions and transactions that were considered at least in a public way for people who are doing serious restructuring of their balance sheet, whether it's a spin or a sale, this is what's going on. And we know that there are additional transactions that are occurring right now, and we know that there is probably a lot in the pipeline. We are going through the great life insurance restructuring, okay, and I'm not sure what inning we're in, but we're nowhere near the end, okay. There is a lot to go here as companies management teams are getting rewarded, frankly, for being proactive and managing their balance sheets and getting rid of this stuff. And we've all seen that.

So there are lots of sellers. Who are the buyers going to be? Well, let's knock them off, okay. The public company environment, well, they're actually the sellers, they're not going to be the buyers, right. And this isn't their strategy anyway. They're moving away from being traditional insurers, they want to be in fee businesses, right, which don't require capital and don't require them to manage assets. That's where they're focused. So they're not really going to be players here in terms of buying these companies. There are a number of new entrants who have the same kind of structure that Athene does and that's not by accident, okay. There are a lot of copycats there, and they've now entered the market, but a couple things about that group. First, they have difficulty or they are going to have difficulty getting regulatory approval for anything other than a simple vanilla transaction. Two, they don't really either have a low rating or frankly, no rating, okay, which makes them significant -- have significant counterparty risk. They do not have the expertise to deal with some of the complex solutions that are required here. Most of these companies can't come up with a new variable annuity hedging program, right, to meet the needs of a potential acquirer. And they're very competitive and aggressive at pursuing small deals, but when the transition gets larger and requires a bigger check, they just don't have the money, okay. So they're competitors of ours, but I don't think they're going to be true rivals. So that leaves Athene. And I think it's probably unfair to say that we're alone, okay. We do have a few competitors for these opportunities, but we don't have many, okay. Athene has got, obviously, a strong financial position, which you'll hear a lot about today. We've got high ratings. We have great M&A expertise in terms of sourcing. We have Apollo as our partner here that gives us tremendous capabilities, and we have a proven track record as a company that's a successful acquirer of businesses and that matters a lot.

If you think about the future, I believe that Athene is very well positioned, and so we're approaching the future carefully, okay. Just to set the stage, if you look at the box at the upper left there, our debt leverage ratio is 12.3% as of June 30, that's half of what the industry is. That implies we have roughly $2 billion of debt capacity. You add that to the excess equity capital of $2 billion, that means we have $4 billion of dry powder to pursue transactions. By the way, that's $4 billion for a company that's got a market cap of $10 billion, okay, so it's a lot, and it's very meaningful to us. So we have this money, but it's important that we be patient in terms of how we deploy it. So we have careful return criteria, and that's the upper right-hand box. We expect to do acquisitions at mid- to high-teens returns, and we will not deviate from that. We sell organic business by the way at mid-teens returns, that too is a capital deployment decision. And when I say returns, let me be very specific, okay. We're talking about unlevered statutory cash flows as the return criteria. So on that basis, we think that our competitors, especially our domestic competitors, are generally at high single-digit returns. And then with leverage, they can get it into double digits, okay. And then -- and the reason we have to have this kind of return criteria and we have to make sure that we're disciplined is, if the -- and this is the lower left-hand box, if you look at the opportunity in front of us, it's a lot more than $4 billion, right. If we think about deals that are available in the near or medium term, we are -- we think we might have $5 billion to $10 billion, and I don't know why we stopped at $10 billion, it could be bigger number than that, frankly. So not only are we -- do we intend to spend all this capital, we will -- very likely, we will have to raise more, right, and we will be able to create a lot of value with that additional capital. So that's what we think is in front of us. So you can imagine, therefore, how we view capital management today.

Now we do all this with our partners at Apollo, and this is our ace up the sleeve that others just simply don't have. Apollo has a track record, one of the smartest alternative asset managers in the world today, has an enormously long, successful track record, incredible credibility in the marketplace, okay. Having them as your partner, it helps, it helps a lot, all right. So they have played an important role in every transaction that Athene has done. And they've been crucial to our successes and whether that's helping us source the deal or structure the deal, manage the assets or help us get regulatory approval, they've been there all along the way, and they truly are our partners. And this is an advantage that virtually no one else in the industry has.

So I pull it all together with the Voya deal, right, which not only highlights our partnership with Apollo, but our strengths and what we do well. Apollo and Athene, along with some third-party investors, capitalized the new company called Venerable. Venerable acquired $35 billion of variable annuities from Voya. At the same time, Athene reinsured $19 billion of fixed annuities from Voya, okay. And what happened to Voya? Its market cap and its valuation increased substantially. Management was proactive about dealing with their balance sheet legacy issues and they were incredibly rewarded. What's interesting about that day is not only the Voya stock go up, but so did Athene's and so did Apollo's, right? There was that kind of value creation because we repriced and re-underwrote liabilities and recapitalized them as well. So this model can be leveraged, right?

We can do other variable annuity deals. We can possibly do long-term care deals. And I hesitate now, I'm not suggesting that Athene is going to buy the long-term care block, but will have a role to play, which will be value added in those kinds of transactions. This is why we are going to succeed in the great life insurance restructuring, right, because we have the capabilities, we have the money and obviously, we're focused on the fat pitch. Thanks very much.

Now, I guess, what I'd like to do is have Jim come back up and we'll start the investment section.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Thank you. Yes, thanks, Bill. One of the driving forces and one of the many reasons we had for hosting Investor Day was we feel and continue to feel that the value add and differentiation on the asset side at Athene and Apollo is not as well appreciated and understood as it should be. And we're going to talk about that now as we go through the asset section.

The 2 key tenets of our investment philosophy are returns and downside protection. We also, in addition to credit risk, underwrite with Apollo, liquidity and complexity risk as long as we're paid adequately for it. We -- before we buy any asset, we engage in significant stress testing on all sorts of metrics, see how it performs in the crisis. And we have a dynamic and fluid asset allocation process, again, similar to what we talked about on the multichannel distribution platform on the liability side. Apollo has a variety of direct origination sources that we can pivot among as well as we have a dynamic asset allocation process within Athene to lean in on -- and Apollo to lean in on cheap assets and back off on rich assets. We've never stressed for yield. We rely on core fundamental underwriting and our business model allows us not to have to stress for yield on the asset side.

We've had significant outperformance on the asset side over time. In this low environment, as I said in the introduction -- low-yield environment over the last 3 years, we've outperformed peers just in fixed income by 40 basis points. That's huge. And when you apply the 12.5x leverage in our operating model, just on the asset side produces about 500 basis points of ROE outperformance.

We have a demonstrated ability to generate alpha across market environments. Our business model is well situated to continue to do that. That's in all 3 phases of our business; assets, liabilities and capital. Really what we're doing here is we own insurance companies because they provide Athene and Apollo low-cost persistent liabilities, heavily protected by surrender charges. So we can invest with certainty behind them and employ the value-added differentiated asset approach to produce long-term shareholder value.

This page shows some of the alpha generating transactions in place that we've been involved with since inception, different transactions in different sectors for different eras, but it's -- and you can see we have here. This is under the regulatory environment, it shows the C1 charge. And this significant investment spread, net investment spread, for 6 of the 7 listed here were in NAIC 1s and 2s, the most capital efficient part of the market for an insurance company. And then, we have an alternatives portfolio, as evidenced by this one, of TALF AAA CMBS transaction for extra income even though that's the one part of the portfolio that's not capital efficient. Absolute dollars of income matter in alternative portfolio.

This is important slide and one of the key messages we want to convey today. I think there is a perception out there that because we outperform on the yields and performance side on the asset side that we may have more risk than others, peers, et cetera, that's not true. Here is the facts. So C1 charge in the NAIC RBC model, we're right in the average area with peers, 3.2% versus peers at 3.4%.

Sensitivity to the credit cycle. We have a shorter duration portfolio than the industry, partly from the fact that we have a significant portion of our portfolio in floating rate securities, means we're very well positioned for further income increases from rate increases. So in addition to shorter asset duration, we also have much higher risk-based capital ratios. And risk-based capital does take into account the riskiness of the subsections in your asset portfolio unlike a peer asset leverage ratio, which just takes capital and the total portfolio without differentiating among different parts of your portfolio. So we've a lower asset duration, a cleaner liability profile with a larger capital base. Alternatives, we have 4% invested assets, the industry has 3%, so -- in the same ballpark, but more importantly, the nature of our alternatives is far different from what the industry has. We never went into traditional hedge funds and private equity. Instead, we focused on funds whose underlying collateral is fixed income like with cash flowing features, less volatile. We still look for dislocations in the market, double-digit per year returns, but not betting on equity appreciation and directional bets like typical alternatives do. And then finally, it's a very high quality fixed income portfolio that we have. 94% is rated investment-grade by the NAIC, NAIC 1s or 2s. So we think we've outperformed without adding incremental additional risk versus others.

We talked a little bit about this earlier as well, the typical insurance company on the asset side may have an internal investment team, but also has some version of an outsourced business model on the asset side. And to get really serviced well and appropriately, it's who screams the loudest to get the attention of the outsourced investment provider. We have a different philosophy at Athene and Apollo. One manager, Athene Asset Management, a subsidiary of Apollo, to service all $100 billion, only 1 client. We have over 100 investment professionals at AAM and close to 300 investment professionals at Apollo, all looking, sourcing, managing, risk managing assets for Athene Holding.

We have scale in our preferred asset categories and world-class infrastructure. And again, a huge differentiator between our model on the asset side than others in the industry is complete alignment between Apollo, the asset manager, and its customer and client of Athene in that Apollo is the largest shareholder in Athene. We have differentiated and even better investment capabilities by virtue of the relationship with Apollo. We've talked about this, about $100 billion of invested assets on Athene's balance sheet. We need tens of billions of dollars of new investment ideas every year to keep up with Athene's funding machine. We have simple and persistent liabilities, and we need the spoke service sourcing to sustainably earn over time, as we have, close to a 3% investment margin. Apollo has a 20-year track -- 28-year track record of outperformance, investment professionals around the world and additional support functions that they're providing to Athene that's far different and comprehensive than typical asset management relationships. So again, alignment is completely in tune in this area between Apollo and Athene. Apollo is Athene's largest shareholder, a skin in the game unlike other relationships on the asset side in the insurance business.

We have a stellar team of senior investment professionals at Athene Asset Management. You're going to hear from Jim and Nancy after I'm done here this morning. They've worked in significant jobs before they came to Apollo and Athene Asset Management. And they are expert in investing for an insurance company, capital efficient, asset liability management, all fits together and this team has been together for most of the time that Athene has been in place.

What does the path forward look like? One thing I know is things can't continue the way they have been investing in the insurance industry. Look at the yields compression that's occurred from our founding in '09 to today. Nonagency RMBS, one of our staple asset categories and one of the best-performing sectors we've invested in, yields are cut in half from when we started. CLOs, investment-grade pieces, debt tranches of CLOs from 8% down to 5.7%. CMBS you can see a 340 basis point tightening and alternatives which was 15%, we target 12% now. So in order to generate earnings, you can't do what you have always done in typical investment strategies. What are the alternatives? Asset management options for a scaled and growing portfolio. We can succumb to the wave of passive investing. We're not going to do that. We can outsource to several active managers and be a relative drop in the bucket. We did that when we first started before we had scaled and hired our own people and were aligned with Apollo. And I can tell you we did okay because I was pretty good at yelling loud, but it's not an ongoing strategy that makes sense. What does though is -- and Apollo is doing this in spades, invest in long-term capabilities to directly originate senior secured assets that will provide alpha to Athene. Direct origination is becoming more and more important. It's clear to us that's where the emphasis needs to be.

It's a new paradigm. Insurers can't continue what they have done in the past. It's not generating enough Alpha. So here we show some of our direct origination capabilities compared to various indices. In the levered loan indices, you see our midcap asset originator outperforming significantly. And down the road, the CMBS index Apollo's commercial real estate debt outperforming. In the U.S. corporate index, Apollo's foray into insurance-linked securities, significant outperformance. And in aircraft, through Merx at Apollo done better than the index.

Value-add exists, we believe, in direct origination in less trafficked areas, where we can underwrite complexity and illiquidity without sacrificing any credit quality or risk metrics. We benefited significantly from Apollo's investment in direct origination. We're on pace this year at Athene to have new investments of about $30 billion in the course of a 12-month year. As we know, there is a scarcity of yield in the public markets in CUSIPs and there is a need to build out more direct origination and Apollo is doing that. 2017, Apollo has about 150 people dedicated to direct origination. That's going to double in the future to over 300. And they're spending $85 million right now on direct origination, it's going to go to $175 million. They've taken people from the private equity group, high-performing people, whose sole focus now is find more origination platforms from which Athene will be the direct beneficiary.

Here are some of the origination platforms we have now, and Athene is also a part owner of a couple of these. MidCap, middle market lender, started up being focused in the health care space. When Apollo and Athene bought them, we broadened their mandate, provided cheaper sources of capital, and they're directly originating now a diverse offering of senior secured loans with $15 billion of commitments across different sectors of loans. AmeriHome, mortgage servicer and originator, owner of MSRs, Merx in the aircraft leasing space and triple-net lease, where Apollo is building out personnel and platforms on both coasts with the potential to grow this capability as well as recapitalize existing platforms both here in the states as well as abroad.

And those are what we have and what Apollo has today, including OneMain, but also platforms for the future that are possible and perhaps probable are infrastructure, commercial and equipment leasing and financing, consumer finance and some others. So it is a some major large effort that I don't think anyone else, not just in insurance, maybe in the entire financial services area is doing what Apollo is doing in this sector.

We talked about the fact that we have great alignment between Apollo and Athene because Apollo is the largest shareholder of Athene. On the same concept of alignment, we're announcing and put out a press release this morning, a new fee arrangement on the asset side. Differentiated yield was what we're talking about here so far, is very, very important for Athene, and this new fee arrangement increases alignment between Athene and Apollo.

In summary, the base asset management fee is going down, and sub-advisory fees will be aligned with alpha generating capabilities. If we do not receive differentiated asset management, the fees will go down. Conversely, and what we expect, if we do receive asset differentiation and alpha, our net investment earning rates will go up and we'll pay slightly more in fees for that, but the net after fees will be significantly better than the current construct. And we think again, this continues what we think is the best alignment between the insurance company and the asset manager.

This next page just further illustrates the new fee arrangement and some insights into how the fees and portfolio differentiate -- differentiation comes together. As a point of reference, if we replicated our existing portfolio on future asset growth, we'd pay modestly lower fees under the new arrangement than we pay now. However, we are hoping the alignment of interest for greater asset differentiation, which may result in higher fees, but only if the net of fee yields is increased that's compelling for Athene.

With that, let me turn it over to Jim Hassett, who is going to talk about the credit cycle and positioning.

James M. Hassett - *Athene Asset Management, L.P. - EVP of Credit Investments*

Thanks, Jim. Good morning, everyone. Thanks for being here. Obviously, interested in the Athene story. As a way of introduction, Jim Hassett, EVP, Credit. I joined Athene Asset Management in 2011 after spending 25 years in the credit markets both the public and the private markets, more recently a trust called [West] running the high-yield credit strategy there. I'm going to spend a few minutes just highlighting kind of where we are in the world in terms of landscape. I think a lot of comments earlier touched on the financial repression that we've seen, the challenges that we faced. We're going to walk through our investment process or dynamic asset allocation process as well as kind of provide some illustrations and examples of how we've been able to generate alpha to date and then maybe a playbook and a road map for the future.

Looking at credit spreads, obviously, what's worked in the past is taking risk. Since the cycle turned in '09, buying credit going down the curve has afforded investors tremendous amount of yield. That has really reversed itself. More recently, we've seen investment-grade credit spreads reach their local tights in early February and the opportunity to go down across BBs offers you 100 basis points in the realm of historic perspective, that's almost 100 basis points inside of what we would see sort of fair value. So not a whole lot of opportunity to exploit yield in the liquid CUSIP markets or going down the credit curve. Additionally, what's worked in the past is going out on the yield curve, taking a duration risk. Obviously, year-to-date, the backup in rates has not worked. We've seen that the pain trade and more recently we have seen the tenure appears 3%, but extending duration if you look at the spread between 2 years and 30-year treasuries, it's a pickup of about 40 basis points. So on average, it's a little over 1 basis point a year to go out there. The flat yield curve is not being overly rewarding if you want to extend your portfolio going out on the curve. That's the dilemma that all us investors in the insurance world are facing and that's why we try to take a different tact, a different approach to generate alpha on a go-forward basis.

How do we see the world? And how do we approach our asset allocation process. I think you've heard the term lean in, dynamic, disciplined, those are all things that we take into account when we look at our asset allocation. We typically incorporate very much a forward-looking view on the credit -- or the capital markets and trying to exploit opportunities that have either been abandoned or neglected or haven't worked out for others. So we pick up the pieces where others have either fatigued or have made some missteps. So we take an approach that allows us to exploit what we consider the 3-legged stool in terms of a fundamental view, a technical view, and a valuation view that allows to position the portfolio optimally to meet our liability needs, but also undergoing stress tests such that to withstand any adverse moves. And I think, John Rhodes in our risk section will address that.

The second part of that is having a deep team, Athene Asset Management along with the integrated approach with Apollo really underwrites credit at its core. That's really the foundation of our process, a bottoms up very much a disciplined process. And where do we get alpha? Where do we exploit yield in the marketplace? Well, I think Jim touched on this. Largely, it's through complexity, liquidity, and I think the complexity issue sometimes is not so much complexity, but I think others are lazy or not willing to do the work to kind of look at things. And so we were able to roll up our sleeves and really take advantage of opportunities that others have not. Another part of our value approach is really being contrarian and being nimble, opportunistic. As Jim mentioned, we lean in when we see opportunities, we lean out, and I'll go through some examples here to illustrate that.

Our portfolio mix. I think, Bill alluded to the fact that a lot of our peers have a high degree of allocation to corporates and govies. Our portfolio has less so. We have used that lower allocation to take advantage of opportunities in structured credit, whether it's RMBS, CLOs, and to a lesser extent, ABS. These structured securities have provided us a tremendous amount of performance in alpha over the past several years as we've taken advantage of that. These securities are less liquid, have floating rate, which has helped us perform extremely well over the last couple of years. And they're perceived to be complex. And as I mentioned, I think they're not necessarily as complex as they're just a little bit more credit intensive. And as you see in the chart, we don't view our portfolio as being riskier as evidenced by the C1 charge or the OTTI that we've taken. We think our portfolio is comparable risk, just outyielding because we're a little smarter and a little bit ahead of the curve. And our alternatives allocation is still within the same framework for our peers. We think that alts allocation has less downside, probably has a less upside per se in terms of a bull market and equity convexity that we see today. But we think at a downturn in a normal sort of 5% to 10% S&P environment, we think that our alts portfolio will perform better.

Let's -- let me illustrate example of sort of the RMBS investment that we made here at Athene Asset Management. Obviously, the cause of the crisis in '08, '09 was really centered on subprime residential real estate. There was an immediate snapback or a snapback in '09 and 2010, but Athene with the help of Apollo identified this as being a longer-term strategic asset category that would be much more accretive than owning fixed rate corporate bonds. The RMBS opportunity had attractive yields and downside protection given the price points that we're able to enter, floating rate providing ample sort of upside and convexity, and they identified that opportunity and as a result, we went out and hired a team. Nancy De Liban and Rob Graham, who had a track record of managing nonagency mortgages in a prior life, they brought their team, their technology, their expertise to that asset category, and we were able to run that asset to its fullest really from 2010, 2011 to really 2016.

Another example of sort of being contrarian and taking advantage of some complexity was Athene exploiting CLOs after the crisis. Once again, '09/2010, an asset category that was neglected, pushed to the side allowed us to come in and step in and buy highly rated AA and A CLO tranches that were yielding 8% to 10% tremendous amount of discount in subordination, and we find this asset category to be very attractive especially when you compare it to corporates. The incidence of defaults, the level of subordination and structuring provides a lot more downside protection, and we think it's a very good strategic asset category and it's an asset category that represents about 7.5% of our portfolio today.

Being dynamic in the CLO is another example of us just not being what worked in the past. Here we show that several years ago, our CLO allocation had about a 17% allocation to below-investment-grade BBs, and asset credit cycle has gotten longer in the tooth, as we've kind of moved past -- we've taken a very proactive approach at reducing that risk, where we thought -- where we saw and experienced outside gains in '16 and '17, we see less of that opportunity on a go-forward basis, especially for the insurance company balance sheet. And so we've let that portfolio shrink to about 5%, and we think that 3% to 5% of our CLO allocation within BBs is probably the right amount. This sets us up for a potential entry point when prices may fall or if we see a credit cycle turn, we think that could be a very attractive strategic asset class and we're looking for a better entry point. And I think this is an example of how we balance risk and reward. We take a full sort of cycle approach as opposed to just doing what we're (inaudible) or searching or adding to the highest yielding kind of assets out there.

BBB cooperates is an example of a very efficient asset class, something that I oversee. But given the backdrop that we've seen over the last several years, credit defaults and credit stress are not there. So our portfolio has a slight overallocation of BBBs relative to our peers, that was conscious. We've been able to exploit that opportunity and it's helped our portfolio be accretive by about 25, 30 basis points on a per annum basis. And as we've done that, we've recognized that over the time, we've become a little bit more cautious and have shifted our risk appetite more into the A relative to BBBs. Once again creating capacity for some spread widening and opportunities to do that.

Where we have added some credit risk, I would say, in our IG corporate portfolio has been in private placements. Private placements at one point represented only about 25% to 30% of our aggregate corporate portfolio. Today, it's closer to 35%. Why do we like private placements? A little bit of liquidity premium, better structural protections at this point in the cycle. And if we look historically at our loss and default recovery rates on our private placement book, it's much more superior than the public markets. And we don't have the mark-to-market swings when we see a sell-off in credit markets, typically the IG liquid market gets oversold and creates a little bit more volatility.

Next slide, we were trying to find an example, where we see face some portfolio adversity, and over the last 10 years, there hasn't been a whole lot of adversity. It seems like beta has won the day, but we extracted this example on the energy space, where we entered the cycle in 2015 very well positioned. We had a very modest allocation to high yield, a very really modest allocation to below-investment-grade high-yield energy. And that's an example where we saw financial stress when the commodity prices fell in late '14. We had a number of conversations thinking that, that may be the fat pitch. We exhibited some discipline and paused and really took advantage of continuous sell-off in the energy portfolio as our portfolio -- our energy portfolio in the IG side was not immune to that. And as that sell-off occurred, we tried to reposition because there was a better menu of offerings instead of every asset or every bond clustered north or par, we saw some dislocation, and we repositioned the portfolio by (inaudible) our higher dollars sort of close to par-type bonds that was short tenured and rotated into the midstream space. The midstream space represented about 40% of our energy allocation. Today, it's about 55%. And that's an example, where we leaned in and leaned out at the right time. We took a very proactive approach, exhibited some discipline. No panic, but the real benefit is how we positioned portfolio going into that such that we are not fore-sellers. In addition to that strategy, today, we actually extended our view on the midstream space to buy MLP equities as a small allocation to our alternatives. We have about a $50 million allocation to this MLP equities that we entered to in March and it's performed extremely well, taking advantage once again of a dislocated market, attractive valuations and exploiting sort of our underwriting expertise.

Let's switch gears looking at alternatives. In the low-yield environment, a lot of insurance companies are looking ways to enhance their income through their alternative allocation. When we look at our alternative allocation, we really ask 3 questions. Is it really attractive and cheap on a return basis? Is it attractive on a risk-adjusted basis that being we would much rather own on an alternative that has a target return of between 8% to 12% versus one that has down 10%, up 30%. So we like really focus sort of tight range type of returns. And then the third point we ask is, is it strategic? Does it have any additional benefit other than its asset return? And I think, Jim Belardi alluded to the example of MidCap, which we'll talk a little bit -- about that a little bit.

When we look at these investment opportunities in these alternatives, we focus on cash flow. We avoid these binary outcomes. Some assets are -- some alternatives that have downside protection are sort of the target investments that we look at. And if we look at our spectrum investments from right to left, obviously it runs the gambit from public to private with attractive returns. As Jim mentioned, nearly a 12% return over the last 5 years is pretty attractive relative to our peers. And when we look at our portfolio, we really differentiate ourselves relative to our peers by having a high degree of strategic investments. I think if you look at our portfolio, we don't invest in hedge funds and private equity funds as much as many of our peers do. We try and focus on dislocated opportunistic type of investments, but really the cornerstone of our alternative portfolio is in strategic investments.

Here I pointed out, obviously, the composition of our peers, 80% private equity hedge funds, we've only 15%. We're looking at these strategic investments that offer higher-yielding assets, safer assets. This concept of direct origination avoids the middleman, eliminate some fees, allows us to create bespoke-type transactions and really insulates ourselves from mark-to-market swings.

Let's talk a little bit about MidCap. MidCap is an investment that Athene made, I believe, in 2012. MidCap is a successful middle market finance company operating in 5 different businesses. MidCap has a long track record of originating assets with a low incidence of default. As you can see, over the course of 15 years, the default losses are fairly minimal, and we look at that as an opportunity to identify assets that will work well for the insurance company's balance sheet that offer better yield and the liquid corporates or the liquid CUSIP-type universe and obviously, we see it much more insulated as we are closer to the origination capabilities of MidCap and really have a great handle on the credit origination and utilizing their great track record. And we at Athene look at that direct origination as a way of the future.

We think that original platforms could create better access to high-quality assets, better yields and better returns relative to the public markets, and we're making a conservative effort along with the help of Apollo at bridging that gap and bringing our strategic investment in direct origination capabilities up to about 33% of our portfolio. Right now represents about 5% to 10% of our asset base, but we expect to see that grow on a go-forward basis. And this is an example of us being different and taking control of our own destiny.

Where are we today? We talked about, obviously, ad nauseam in terms of the lack of yield in the marketplace, where we have seen opportunities today and where we've seen opportunities today that have been in the private fixed income related to corporates, we talked about that. Opportunities in ABS, esoteric or home-based securitizations and royalties-type transactions that we've been able to take advantage of. Our commercial mortgage loan is another area. I think we referenced the fact that we just entered into a triple-net lease transaction in early 2018. And then the concept of direct origination allows us to find better risk-adjusted assets that we can, and we think that's going to be the key to sort of our future success.

How are we positioned for the future? Well, once again, we're trying to be nimble and opportunistic. Currently, we're up in quality, focus on quality. Nearly 95% of our -- nearly 94% of our portfolio is NAIC 1 or 2. The best offense is a good defense in the current environment and should not be rewarded for taking that incremental credit risk, trying to create some capacity. In order to take advantage of market anomalies, we have to be in good position. We've demonstrated that with our corporate book or energy book, and we've done it obviously in our CLO book, where we have reduced our below-investment-grade allocation there. So they were ready for the next opportunity.

And we need to demonstrate patience. Patience and discipline has rewarded us in the past. We think it'll reward us in the future, and we look to capitalize on the next fat pitch. And on the asset side, the fat pitch we always describe is, as an asset category and asset class that has decent fundamentals, has poor technicals and a really cheap valuation, which go hand-in-hand. And we've seen that in CLOs, we've seen in RMBS, and we're waiting for the next opportunity to take advantage of that.

And with that, I'll now pass it over to Nancy, who will walk through our underwriting process and liquidity analysis.

Nancy De Liban - *Athene Asset Management, L.P. - EVP of Structured Products*

My background, if you can hear me -- my background in a snippet is 15 years at Bear Stearns, where I think I structured their first CMO on an HP-12C in a computer about the size of this room. From there, I left as an SMD to go to Countrywide Financial to build out their broker dealer. That was successful through the crisis, profitable and brought it to the top 5. After that I started a technology company, where we built prepaying default models for a top 10 bank, came to Athene in 2011. I won't leave you as a cliffhanger.

Credit investor. What is a credit investor? We are PE style. When we underwrite, we kick the tires, we look under the hood. We do a lot of work before we allow any asset to be on our balance sheet. If you look at this table at the bottom, this is a sample of the entire fixed income market that we run on a weekly basis. So what we do is we go back sector-by-sector and we look at everything bad that's happened over the past. So for corporates and bank loans, we'll use Moody's database. For CMBS and RMBS and commercials, we'll go back and look at what happened through the crisis. So we'll take the absolute worst thing that's ever happened and we'll line them up in a down 1, down 2, down 3 standard deviation. By doing that, we get a snapshot of the whole market and we could see which sectors are rich and which sectors are cheap. Additionally, when guys optimize a strategic allocation, they will typically hold capital constant and try to maximize yield. We take a different approach, where we do that, but in addition, we also have what we call a measure of risk, present value of loss. So we'll take a 3 standard deviation event, we'll see how much money you lose, and we'll convert that into a risk factor. What that does is when you optimize among the different allocations, it also helps you reduce potential downside, which is important because if you're prepared for a 3 standard deviation event when some black swan event hits, which maybe down 4, down 5, down 6, you're much better positioned to withstand it.

How we underwrite? We do a ton of work before we allow any asset on our balance sheet. We are not 2 guys in a Bloomberg. We don't just use a subjective approach. First thing we do is we collect data. For residential loans, we have over 100 million units. For consumer, we have over 10 million units. For corporate bonds, bank loans, we have Moody's entire database. We will use our 11 quants to analyze this data over a 4- to 8-week period of time, sometimes 3 months depending on the data and what we do is, we try to find out what are the real drivers of risk. And the drivers of risk are not just things like FICO, which is a big mistake people do in consumer loans. So what we found in consumer are things like number of accounts opened in the last 2 years, number of inquiries in the last 6 months. If you look at those factors, you will find very different performance. So you could create 2 pools with exactly the same FICO, you could sell a higher FICO pool which will underperform the lower FICO pool because you don't know the drivers of risk unless you dig through the data and you identify it. We are not 2 guys in Bloomberg. My colleague and I have a running joke that we spend more time underwriting a $5 million bond than what most people do in buying a company.

Why technology? Technology is great because we would have oftentimes 500 bonds that we would have to price and analyze to bid over the next 2 or 3 days. And this is across all asset classes. So what we would do is, if you think about what we do, we take each underlying loan and the deal, each loan has its own characteristic. So each loan will have its own prepayment on default characteristic. We run it at the loan level. We aggregate it up to 1 bond. We then run that bond across several economic cycles to see the risk return. Well, you can't do that on 500 bonds. So we use the model to run through all 500 bonds overnight and to basically rank order them such that we can focus on the cheapest bond and the best risk/return bonds and physically go through each one of those bonds. The other thing is the model gives you a very consistent framework. So it's not subjective. It's not like, "Well I think it should be,". The model is consistent, robust, so that when you're looking at bond A versus bond B, you have an approach that has no bias. Models are also very great at understanding distribution changes, not all portfolios are the same. And we'll go through an example of that. In terms of the economic changes and service or behavior, different asset classes relate differently to unemployment. So a higher FICO guy will default, have a bigger crash, if you will, than a lower FICO guy when unemployment goes up and models will pick up on these correlations. Servicer behavior, some servicers are great, some servicers are terrible at loss mitigation. And so you need to be cognizant and aware of who the servicer is for any particular deal.

I had the matrix green ring picture on the slide because that's when most people think of a model, they think it's a black box. But in reality, models are very, very simple and very easy and transparent. So what are models? Models do nothing more than group characteristics, similar characteristics together. They are rep lines or buckets in groupings. So you might create 1 group that will be a 700 to 750 FICO, you will create another group that may be 600 to 650 FICO. And by having those groups, you will see over time lo and behold, the higher FICO guy defaults less than the lower FICO guy. That relationship the model will keep. Additionally, you may want to know what happens based on LTV buckets or whether or not the borrowers' income was verified or not verified. And so by having a model, which may have 50 of these variables, it's nothing more than 5,000 different rep lines of what happened in the past with a correlation to macro variables.

Additionally, models are very transparent. So if you look at the little graph on the right, what we always do is we roll back a model 1 year. And we pretend that we don't know what's going to happen. So every time we look at a bond, we run this dynamically. If the model goes through the actuals, then we know the model is working. And in fact, during the crisis, what we were seeing is that the model wasn't going through the actuals and we saw it consistently and it's not a lean in or lean out. On that case, we jumped out of a moving freight train and actually were profitable through the crisis mostly due to the insight from these models. So we do believe these models are very transparent. The other thing models are very good at is picking up changes in distributions. So in the table on the bottom left, you can see FICO buckets and historical cumulative losses by those buckets. Distribution 1 would be a normal distribution, and you can see that it's roughly a 17 cum loss. If you look to the distribution #2, it's a barbell. So you've exactly the same FICO, but because the distribution changes, your expected loss goes from 16.6 to 23. Broker dealers use this trick all the time, where they keep the better distribution and they sell the worse distribution, and people who are using Bloomberg are never going to pick up on those.

I love this slide. In real life, it's actually way more impressive. This is every single bond that traded in 2016 and 2018. The red line -- the red dots are 2016. So it gives you a snapshot of the entire market on one page. You can see the trend line on the red dots. And you can see down in 2016, it was upward sloping. You were getting paid for risk. So the more risk you have, the more return. The blue line at the bottom is where we are today. And these are all the bonds that have traded in the last 3 months based on risk return.

You've had a horizontal line, like you're not getting paid to take risk, so why would you. And we really haven't bought any RMBS in the last year, unless a few opportunistically, but in general, we haven't bought. You're not getting paid to take risk.

The other thing is we use this to run our portfolio. So we'll take our portfolio, we'll run it across the industry trend lines. And anything that's below the line, meaning you're getting more risk and less return, are a sell candidate. So every day is a buy-sell of our whole portfolio. We haven't had to sell a lot because home price appreciation has been running at 6% to 7%, rising tide, everything has performed quite well. But we do look at everything on a daily to weekly basis, and it's very easy to identify the candidates that we may need to sell.

This is an example of structure and how we choose where to be in the capital structure. So we look at cash flow, we look at subordination and we look at the asset yield versus the debt yield.

So here's 3 examples, triple-net lease, resi nonperforming and single-family rent.

Starting with single-family rent. What we noticed was the asset yield and the debt yield were the same. Typically, with debt, you have subordination. So you're higher up in the capital stack, it should trade tighter. But actually the debt and the equity -- debt and the asset are trading in exactly the same yield. So there is no point really in buying the single-family rent from a cash flow perspective because there is no cash left over. So why do people do it? Single-family rent is basically a levered home price appreciation bet. And if you believe that home prices will continue to go up and you have conviction, that's great. For us, we were looking at sort of the challenges in affordability, some of the headwinds in mortgages that things are slowing down, and we decided not to take that risk. So instead of making an HPI bet, we went and we decided to buy the debt instead with significant subordination.

If you look at residential nonperforming loans. These are assets that you can target. So you can select particular assets. So in nonperforming loans, they go from a 60 to 260 LTV. We only buy the nonperforming loans that are less than 100 LTV. So we actually have embedded subordination, right, through the equity of the homeowner, the equity of the loan. So we buy nonperforming loan assets, which actually have equity. Also if you look, the assets at 6.7% return, on the bottom of the slide, you can see the debt is 4.1%. So you get much higher return by buying the asset.

Additionally, you get about 50% to 60% of your cash flow in the first 2 years. So by getting more cash upfront, you have less risk, and also you get a really bad capital charge for the debt. So it's probably the safest asset, but this is an NAIC issue where because it's not going through the rating agencies, they have significant subordination, the market trades it tight, but it's an NAIC 5 to 6, so it doesn't work from a debt perspective. And then we also looked at triple-net lease, which we like because it benefits from inflation. It's 7% cash on cash return, and is a very solid asset that we think we can underwrite. We use 2 approaches to underwrite triple-net lease. We look at 4-wall coverage and historical performance from [Intex], in addition to underwriting each tenant through our corporate bond default model.

How we source? We've sourced about $7 billion of our product in our area directly. So no broker-dealer. We save the bid offer. And we end up with -- by the way, that's about 25% of our book. And we've sourced this directly ourselves, and Apollo has helped source a lot of product as well for us. The combination of this ends up creating a situation where you can get better covenants, better reps and warranties. You can tailor the trade better because you're speaking directly to the seller rather than through a broker-dealer. You also get a much higher return.

So single-family rent and what we're going to show on the next slide sort of a hybrid version of a CRE CLO, we've been sourcing through banks syndicate. So banks want to offload some of their risk. They take a pro rata share. So you're aligned with them. However, because they want to sell it, they are selling it to you cheaper than where you could buy bonds through the public market. So we've been sourcing these products about 50 basis points cheaper for exactly the same risk.

Here is a more specific example of what we're trying to do. I think it's a creative structure. It's something that hasn't been done before. And it's something that we think makes sense. So we started looking at commercial real estate CLOs and decided that they were too rich and they didn't make sense. But what we decided to do was to create a hybrid of that and to alter what we didn't like and to enhance what we did like. So we went and created the ability to have a revolving rate structure, which lengthens the weighted average life because we have longer-term liabilities. We like the shorter assets because they're more predictable. We don't have to guess and see what happens over the next 10 years. We can see what happens over the next 2 years. And so we created this revolving rate structure, but we didn't give up the credit pen. So we approve every loan that goes into this facility. There is no credit give up, and we're not relying on the rating agencies, we're doing the work ourselves.

Additionally, we created this also like a CLO, where we get the benefit of cash flow triggers, subordination triggers and get the benefit of things like big boy carve-out guarantees. So the cross collateralization gives you a significant benefit over buying first-lien CMLs one at a time. By having this group, you get additional subordination that's much safer. Additionally, our position in the capital stack is the same. So if you look at a AAA through BBB CRE CLO, you get about a -- this slide is actually wrong, it's a 79 advance rate. And the way we're doing these deals is we're advancing on average 80%. So the same AAA through BBB exposure, we've done it in a very capital-efficient way where it's going to be a CML 2 treatment. And as we structured it, we save about 1.5 points in rating agency fees, which relates to a 50 to 60 basis point yield pickup on exactly the same exposure.

This is a victory lap here. So we just wanted to point out that when there is a dislocation in the consumer loan market, we started looking at consumer loans. We could have bought billions. And we would have liked to have bought billions if there really was a 7% to 10% loss-adjusted yield, which is what the originators were suggesting. We went in and we did our work, and we did a lot of work. We collected a bunch of data. We spent 2 months modeling out each one of the performance, and I kept looking at this model trying to figure out what we did wrong because we're coming up with a 4.8% yield. We couldn't get there. We decided at the end of the day that we were right, and we decided not to participate. And in this last week, literally we had 2 of those sellers call me and say, "Hey, you are right, we're coming in at a 5% yield, and we would like to reengage because we've taken your advice and we've cut out certain segments, and we would like you guys to reevaluate, we think we're 6.5% yield now." So we're in the process of reevaluating this with some of the marketplace lenders. We're going to test to see if the returns really are what they are. And we also identified a lot of their lower credit grades, what they called their, for example, D, E and F credit grades were actually negative yield. So they're originating product that they're immediately losing money, and they didn't even know it. The difference is because when you look at the data and the models, it shows you pretty clearly what is the driver. And so we make sure we understand the downside. We make sure we understand the drivers of risk before we put anything on our balance sheet.

Thank you very much. I think we're going to have Q&A now.

QUESTIONS AND ANSWERS

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Great. So for our first Q&A panel this morning, we have Nancy and the 3 Jims, which sounds like a band name, but they're actually a group of highly sophisticated credit investors, as you've heard. To my far right is Jim Zelter. Jim is the Co-President of Apollo. Jim has co-responsibility for of all the firm's revenue and investing businesses. Jim also has particular oversight over Apollo's credit business and the Athene AUM is included within that.

So for anyone in the room, we will have attendants that will be bringing wireless mics around. If -- please just raise your hand, and they'll walk over to you. And then we also have the ability to take your questions through the iPad in front of you, if you'd like to type it in. I'm happy to read some of them aloud. And for those joining online, we also have the ability for you to submit questions electronically.

So if the attendants could just -- maybe, we start here with this gentleman. And if you could just, please, first, before you ask your question, just state your name and your firm, that would be helpful.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Ryan Krueger with KBW. I guess, for Jim Belardi. In the past, you've talked about wanting to increase your alternative investment allocation to 5% to 10% of assets. I think it's at 4% right now. Do you still see opportunities to increase the size of the allocation relative to the overall portfolio in this market?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

We do. Our 2 biggest alts are in asset originators. MidCap is definitely strategic to us. Yes, we expect to increase our allocation to alternatives by a point or 2. I think it will be hard to get and may not choose to get much above 6%. Part of what we talked about this morning was, we think capital carries the day, especially at times of dislocation. So we want to make sure we continue to have an appropriately sized war chest for the dislocations. Alts do use a lot of capital. But we expect to grow it in some size, but probably not up to anything 7% or above.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

And then just one another one. You put on a lot of high yielding assets, 10 years ago or even 7, 8 years ago. As some of those assets are now rolling off, can you talk about where you're seeing new money yields on new allocations relative to the yields that are rolling off the portfolio now?

James M. Hassett - *Athene Asset Management, L.P. - EVP of Credit Investments*

I'll tell you -- I mean, the interesting thing, obviously, we get money and new policies every day. So we're investing on the margin against the liabilities that are coming in to offset some of that erosion in yields that are rolling off. As I mentioned to you, we've looked to increase the allocation to asset categories that are a little bit more yielding than the conventional liquid corporates, whether it's privates, commercial mortgages, direct origination, things that are rated. And we continue to find value in structured credit, especially senior parts of the capital structure, CLOs. We've pushed out into middle market more senior parts, even double As and single As, given the increased subordination and the higher yields that you're able to collect relative to the broadly syndicated market.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Yes, Ryan, I would just add to that. So on the asset side, we're very aware of our cost of funds. And so we -- it's a new underwriting decision on assets every day, and we know what our funding cost is and how much more we have to -- the yields that have to be above that on the asset side for it to make sense. So even though things are rolling off, it's an ongoing process against our liabilities, and we're very closely aligned with the liability side.

Nancy De Liban - *Athene Asset Management, L.P. - EVP of Structured Products*

The other thing I would add, in addition, is we're doing a lot of these syndications, which are not CUSIP. So it's not public. And we're picking up 50 basis points. So we're buying safe assets probably in the swaps plus 200 area, but it's through these syndications.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Tom? Okay, you just go first.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Erik Bass with Autonomous Research. First a follow up on Ryan's question. You showed the 40 basis points of, I guess, alpha, you could call it, versus your insurance peers over the last several years. Where does that stand on kind of a new money yield perspective?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Where does the outperformance stand or what our new...

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Yes.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

I mean, our new money yields are in the high 4s right now, I think. But look, we have a track record of outperforming certainly the industry. If -- what I showed on the 40 basis points was done by a third-party, so impartial. And that was over the last 3 years in a very low-yield environment. If you went back further, it'd be further -- more outperformance. As rate will rise -- rates rise, I think it will even increase our outperformance versus others.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

And then in Bill's presentation, you talked about the $50 billion plus opportunity or maybe even a $100 billion plus to source liabilities. And you talked about some of the challenges of sourcing assets. But -- I mean, if that pipeline were to come to fruition for you, do you think you'd be able to deploy the assets at the kind of spread levels you have historically and are confident kind of in the return profile there?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Well, like, that's consistent with our alignment of interest between Apollo and Athene. And I might add that, Nancy, Jim and other senior executives, Rob Graham, Matt O'Mara, on the asset side are very aligned as well. They all are significant shareholders in Athene stock as well. But this is where the direct origination capabilities comes in. If we were just reliant on the public on the liquid categories, no, we would not perform. But I think our outperformance can increase over time as we do more and more directly sourced assets with complexity and illiquidity risk, which is complete focus of Apollo's origination platforms.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

And I'll just add that, we, Bill and Jim and many have talked this morning about really on the M&A side understanding both sides, assets and liabilities. We don't assume a dislocation is going to occur. We assume that the current environment is the investment environment we're going to be in for quite some time. So it's very easy for one to look at a new liability and cost of funds and assume a expected dislocation in the marketplace, which I would suggest that maybe others have done, but we were very clear in Bill's slides that we're not expecting that to happen. We can hope and wish and pray. We can say reversion of the mean, but that's not in -- we don't underwrite that.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Right here, Tom?

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Tom Gallagher, Evercore. Jim, so the commentary around M&A, competitive advantages, you're talking about larger deals. I think Bill even mentioned potentially looking at raising capital because the pipeline is so robust. Can you talk a bit about, should we expect bigger deals? Voya was $1 billion of capital deployed, but everything I'm hearing suggests there's bigger deals out there. And also if that is the case, would you raise equity at the current stock price? Or would you have alternatives to raising the financing in alternative ways?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Yes, I don't know if Bill wants to comment on that, but I'll -- capital is king, and capital is a key part of our business plan to be ready to pounce when the dislocation occurs. So we do have a fair amount of excess capital now as we talked about, $4 billion between debt and equity. We're interested in doing bigger deals. So I think we're well positioned now. But I'm not ruling out with such a robust pipeline that at some point we raise additional equity. But no commitment to do that now. I'm just telling you, all things are on the table for us to take advantage of the next fat pitch, because that really is a huge value add for the company, and we will be well positioned for that in any number of ways we can be prepared as we're talking about.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got you. Another question I had, and if you guys want to save this to later and if you're going to go through this more, that's fine. But there was something I -- that I'm confused about on Slide 104. It shows Voya redeployment yield pick-up of 80 basis points. And I believe the initial accretion you were getting is like $80 million to $100 million per year from the Voya transaction. And if I add that incremental yield pickup, I get over another $100 million. And I think your guidance is something like $130 million of accretion by 2019. This would imply over $200 million of accretion. But there might be some other big offsets. So I wanted to see how that math works?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Yes, why don't we save that for Marty. Right now, we're focused on asset originate questions. And then there's separate Q&A session on the liability side, when one of these may be relevant.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That's fine.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

But we'll answer it definitely, Tom.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Okay. The other -- on the asset origination side, the other question I had is, in terms of the MidCap and some of the other sourced asset capabilities that you all have, what percent of your new purchases are being driven by those owned sourcing capabilities? Is that a lot of what your -- where your new money is coming from? If you think about percentage of new money purchases, is it, in other words, are you eating a lot of your own cooking in terms of what you're buying?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

I think the good news is, some of our new asset purchases have come from them, but not as much as we want. And this whole point about alignment between our asset management and their client as well as the new fee structure should increase the production of those value-added categories from the originators significantly. So I think the good news is, we think we can do way more than we've done in the past, and that's really the focus. So not a lot percentage-wise has come from those now, but we think it will come -- be more in the future, and that will be a very good thing for Athene.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Yes. And I would just add that the benefit, I think, that Jim -- and Jim will point to this, but there is really a 2 or 3 for benefit. We think it's a better alternative because of the pull to par coupon, non-binary outcomes, but also the flow of product that comes from the underlying platform. So whether it's AmeriHome, which Nancy can talk about or MidCap, which Jim, the -- when they go through a securitization and do a middle-market securitization, the Athene balance sheet is the beneficiary from those investment grade liabilities that they're basically creating and sourcing on their own. So there is a multitude of benefits from having those origination platforms. And to the question that got asked earlier about the alts, this is dry powder optionality. We have a vision. We've executed on the vision. And it would not make sense for us to create all these platforms today. There will be methodical growth of those platforms, we talked about Merx, we talked about consumer, but there will be an incremental growth of those that add value in time.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Andrew Kligerman at Crédit Suisse. On Page -- on Slide 51, you've changed the fee structure today. So I would like to know or I'm interested in knowing the genesis or the thinking behind the change in the fee structure? And secondly, how much of a pickup over time given your outperformance do you think that could increase the fees versus the previous structure?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

I think we have a page in the presentation that shows that, I think, summarizes it. But in general, we think it was important for alignment to higher fees for more alpha-generating assets. That's really the concept. Lower fees for less alpha-generating assets. And that really is consistent with a lower base fee, both for the existing portfolio and for -- on the margin investment. And then putting a "sub-adviser", if you will, fee on all the asset categories at a discount to market in those various asset categories and with an overlay of, if the amount in the non-alpha assets goes up too high, there'll be a fee discount for the whole portfolio. And if the alpha-generated assets become a bigger part of the portfolio, there'll be a fee increase. Again, all about aligning interest to the more alpha-generating assets, and that's a good thing for Athene, if that explains it.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

If I could just add in, and having been there since day 1 with Jim creating this. When we first started out, it was the à la carte menu. Every asset class had a fee. And stepping back in history, that worked when we were -- when Athene and -- at different point in our growth. And we found that over time, as we were growing and confronted with a variety of opportunities, i.e., Aviva, that, that got complex and was not really efficient for us. And then we went to the one-size-fits-all, and certainly that worked for a while. But as we are confronted right now with where we are in the global valuation of assets in terms of liquidity and passive versus active, we found that there were sometimes a misalignment, putting things in a certain asset class just because of the fee structure. And so I would consider this really the evolution, the evolution of the growth of now $100 billion balance sheet plus, where we are in the globe, where we are in thinking about incremental assets and taking risk. So from both Athene's perspective and Apollo's perspective, we believe this structure is where we are appropriately in our evolution and growth. It's the right alignment and incentives to really be able to create the right type of products that really work and the right sourcing that works for this balance sheet. And I think that we collectively believe that this will result in a environment that we want to really align to try to have those higher-yielding, but lower-volatile assets that really is a win-win at the end of the day.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

So better alignment definitely makes sense?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Continued evolution. And there's been continued evolution of where we are in our growth.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

And just if you -- I know it's a tough question, but if you had to guess, given your outperformance, how much of a fee pickup do you think that might provide to Apollo? And of course, it would benefit Athene as well.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Yes. As I said, Jim alluded to a slide that I think gives you the goalpost, if you would, if we're successful. We've been very methodical about the 4 buckets and what belongs in those 4 buckets. And certainly if we just go along as today, it's a lower fee for Athene. It doesn't really -- again, at the end of the day, it's all about that net earnings, investment return and if we are able to generate those. But I wouldn't want to put a dollar in because it really gets back then to the discipline about M&A, which we're not -- just because we have a new fee agreement, we're not going to do a poor M&A trade.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

That's exactly what -- Andrew, I would just finish by saying, Athene hopes we pay higher fees in this structure, because if we do, it means our net investment earn rate will have been higher than otherwise after paying the fee. That's a good thing. That's what we're talking about, incenting the right behavior. And this structure gives Apollo a big incentive to continue to make the huge investments in the direct origination platforms. It's not cheap. It takes people, cost, et cetera. But this incents the right type of asset management origination.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Maybe right in front here.

Colin R. Ducharme - *Sterling Capital Management LLC - Executive Director of Equity Opportunities & Senior Equity Analyst*

Colin Ducharme with Sterling Capital. I had a quick one for Jim Zelter. Just curious, we heard a lot about the origination platform today and that's a differentiator that I agree with. But I'm curious how you have historically managed the conflict of interest of that origination platform between Apollo on the one hand and Athene on the other? History says you've done that well. But I'm just curious, if you could describe what internal controls you're currently using to manage that conflict? And how you would speculate management of that conflict might play out with the push and the pull of the quantum of dry powder that Apollo raises independently on the one hand and then with the fat pitches that may come around the corner for Athene on the other?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

So we've been pretty methodical about our growth. Those who really know the Apollo infrastructure and business, obviously, we have the right legal and compliance structures. But there is a variety of asset classes that we have purposely chosen not to go out and raise third-party capital in. Commercial real estate is a great example, residential real estate is a great example. We have a great CRE platform, while we have a REIT. People have knocked on our door for the last several years to do an institutional product. We have said no because clearly we want to have that flow go to the Athene balance sheet. Certainly in the residential real estate RMBS businesses, same can be said. We used to have a small REIT. We decided that it was not scalable. We collapsed it. We put the assets into Athene. So we've been very methodical about what asset classes we want to show to third parties and what we think is the special sauce for Athene. So for example, we have a big senior secured loan business. Senior secured syndicated loans are not a great asset on their balance sheet. We have a big third-party business in that on structured credit. They get the majority of the flow as our biggest client. But we've been very methodical about the entirety of our business in terms of various asset classes where we've been thoughtful about making sure that Athene is structurally first in line and, therefore, not opening the door to other third parties. The other thing I would say is these origination platforms, it's not a one-size-fits-all. What we've done for AmeriHome, what we've done for MidCap, what we've done for triple-net lease, they're all different structures that really benefit. So for triple-net lease, for example, the entirety of the portfolio came into Athene. We don't intend to have a third-party business in that spot. Now there -- we want to have the flexibility, because by having a third-party business, they may be able to appropriately price an asset that doesn't work for a regulated balance sheet, but we've been very methodical about that process.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

John Nadel from UBS. I had a question on the sub-advisory buckets. How do you measure that alpha? In other words, is it inclusive of potential default losses or that sort of thing? Or is it just a gross sort of net investment earned rate on each of those categories relative to whatever the comparable yield would be?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Yes. I think it's net of -- it is based on performance. And so it'll -- when we buy it -- when Apollo buys an asset, it will go into one of those 4 buckets based on how we've defined those buckets. And the fees in it will be based on the performance of those things.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Yes. I just -- I wanted to make sure that as you go up the ladder in terms of risk or out the spectrum in terms of risk, the sub-advisory fee clearly higher because the alpha potential is higher, but the loss potential seems that it would be higher as well. So is it just -- is it capturing that?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

When we underwrite -- when Athene decides to invest in certain asset classes, there are doing it net of any kind of future defaults and losses. So certainly, I think that the presentation that Nancy and Jim made today showed the detail and decision that goes into what they do versus just outsourcing it to a third-party manager. And clearly, we're the beneficiary of that detailed analysis. But yes, we assume a loss given default in a more challenging environment when they underwrite.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Got you. I just want to understand the geography because when you think about net investment earned rate above the line in operating income, but all -- any losses realized are impairments below the line, I just want to make sure we're capturing both in this fee structure?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Right.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

We said we'll take some electronic questions. So maybe one for Jim Hassett or Nancy that came in. Colin writes, on Slide 48 of the presentation, team wants to bring that that up quick, Jim had illustrated the yield premium that Athene enjoys across several asset classes. Regarding the IG section specifically, Colin is wondering if we can provide any specific examples of why IG borrowers are willing to pay Athene a 400 basis points premium to the index? And add color as to how sustainable we believe that spread versus the index is?

James M. Hassett - *Athene Asset Management, L.P. - EVP of Credit Investments*

On the IG portfolio?

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Yes.

James M. Hassett - *Athene Asset Management, L.P. - EVP of Credit Investments*

I'm not sure. The yield pickup that we get on the IG portfolios is obviously in the public markets. Where we pickup spread is on the private placements. Typically, it's a premium of somewhere between 25 to 50 basis points above sort of the IG corporate. So there's not a 400 basis point pickup.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

I think that's the growth yield versus the net pickup, if I remember correctly on that.

James M. Hassett - *Athene Asset Management, L.P. - EVP of Credit Investments*

Yes. I mean...

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

I don't think the point was just on investment-grade corporate bonds. It could be still NAIC 1 and 2, but not the specifically corporate bonds. We showed various things we've done in ILS, other areas that have significantly outperformed. Because they're off the run, not well understood, there's some complexity to them, I think, is the answer.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Alex Scott, Goldman Sachs. The question I had was around just the sensitivity to interest rates and prepayments to the portfolio. And I guess, could you help us think about the way prepays and with rates rising, lower prepays could effectively reduce some of the effective yield on some of the older structure products? And then just any other impacts we should be thinking about, whether it's mortgage servicing rights in AmeriHome or anything like that?

Nancy De Liban - *Athene Asset Management, L.P. - EVP of Structured Products*

On the prepays side, if you remember, most of the RMBS we bought has been over the last 3 years. And at that point in time, these were pretty banged up from a credit standpoint, so they had very high delinquencies. In general, we bought those close to a 10 to 12 prepays fee. So going from a 12 to maybe a 6, which would be sort of the worst case if rates went up, isn't a horrible cost. But there still will be a cost of -- it's probably around 20 basis points on that book. And for AmeriHome, it's really countercyclical in many ways, right, because as rates go up, the MSRs are more valuable. So from an alts perspective, I would -- if we lean in on AmeriHome, rates will go up. And if you sort of use your macro hedge component, you'll get some benefit to rates increasing from AmeriHome.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And then second question I had, and this might be for later, is just, you showed 5 years of duration for the assets, I think, on one of the slides. And I'm -- I was just interested to know, like, if you have a rough number you could give us for the liability duration? How you think about the matching? If there is any kind of interest rate sensitivity to a mismatch we should be thinking about there?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Yes, sure. After the Voya block acquisition, actually that further reduced our asset liability mismatch. So right now, we're essentially perfectly matched on the total assets to liabilities basis. So rates move, things move around along the margin. But right now, we're right in line. We're also, I'd mention, passing all the different cash flow testing scenarios with the biggest cushions we've ever had right now. And that will continue as rates go up by the presence of our floaters.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

I'd like to keep us on time. So we've reached our allotted for this section. We're going to take about a 15-minute break, let everyone stretch. On your way out, we're going to just have you enjoy a quick video highlighting our success as a public company. Thanks.

(presentation)

(Break)

PRESENTATION

Grant Kvalheim - *Athene Holding Ltd. - CEO of Athene USA*

(presentation)

Good morning. I'm Grant Kvalheim, CEO and President of Athene USA. It's our new national brand, and I hope you like it. We call it game changers. We're looking to raise our brand awareness, and consistent with what we have been speaking about this morning, show that we seek to outperform by breaking free from conventional thinking. Along with Bill, we're going to discuss our multichannel distribution model and how we feel we are exceptionally well positioned to continue to grow organically. When we say that we opportunistically grow liabilities that generate desired levels of profitability, how do we do that? Well, we start by being very well connected with our asset partners at Athene Asset Management, being aware of what our on the margin asset yield opportunities are, and then figuring out what we can afford to pay on our liabilities. That's how we maintain our net spread. We do that while focusing on risk, which in retail, for example, leaves us to focus on surrender charge protection, market value adjustments, but in all of our liabilities, to think about stress testing and prudent reserving. We're also a pretty creative bunch. And we focus on offering solutions in all of our channels that provide strong value propositions.

Our ability to simultaneously focus on profit, risk tolerance and creative solutions makes us the counterparty of choice in all of our channels. Our liabilities are long-lived by design. And so you want to control for risk through not only product features, but also by targeting significantly higher spreads for risk features, and that's what we're looking to show on this slide.

Bill mentioned our keen focus on cost of funds. We've spent a lot of time thinking about it in all of our liability origination channels. What the industry reports is interest credited. We think that is a totally inadequate measure of the true cost of liabilities. So we define cost of funds as what we think is a complete and holistic view of the true cost of the liability, not only the interest credited, but the cost of riders, the actual cost to execute the policy and what infrastructure do you need to run your business. We take all of those costs together, and that is our pricing cost of funds. We use this consistently across all of our channels, both organic and inorganic, and it makes our opportunities comparable and consistent. We also believe that cost of funds when combined with our asset returns or net spread is the best future predictor of our GAAP earnings.

Many of you've seen this slide before, but we've now updated it to include the Voya transaction and also our first half organic growth. You can see on the right-hand slide of the slide that our funding sources are becoming more diversified as we grow funding agreements and PRT, our institutional businesses, and that trend should continue going forward.

As Bill mentioned, we have no exposure to the parts of the business that have caused others so much heartache. No long-term care, no variable annuities. And all of our fixed annuity businesses were mark-to-market at acquisition or have been written recently in an extremely low interest rate environment. If you look at the lower left and we dig a bit down into our fixed annuities and fixed indexed annuities, we have strong surrender charge protection, both in terms of the percent of the portfolio that's covered by surrender charges, but also by the remaining amounts of the surrender charge, and we make consistent use of market value adjustments. One other point I'd make on this slide is that of look at funding agreements, payouts and PRT, which are a growing part of our liability sources, none of them have any surrender features whatsoever.

As Bill mentioned, we have no exposure to the parts of the business that have caused us so much heartache. No long-term care. No variable annuities. And all of our fixed annuity businesses were mark-to-market at acquisition or have been written recently in an extremely low-interest rate environment.

If you look at the lower left and we dig a bit down into our fixed annuities and fixed indexed annuities, we have strong surrender charge protection both in terms of the percent of the portfolio that's covered by surrender charges but also by the remaining amount of the surrender charge. And we make consistent use of market value adjustments.

One of the point I'd make on this slide is that if you look at funding agreements, payouts and PRT, which are a growing part of our liability sources, none of them have any surrender features whatsoever. The takeaway from this slide is that Athene has the cleanest liability portfolio in the industry.

We have a unique business model. When we look at our 4 organic challenges -- channels, we don't have any competitors that are active in all 4. Some of the people we compete against are active in 1, some in 2, a few maybe in 3, but nobody has 4 sources of organic growth like we do. And when you combine that with our proven ability on the inorganic side, we have better growth opportunities than any company in our industry, and that allows us to be relatively selective in what opportunities that we pursue.

There's also some important points at the bottom of this slide. There's dedicated investment expertise both at Athene Asset Management and Apollo which is totally fixed on serving Athene.

We have scale. Not only scale, but, as Bill importantly mentioned, we have scale at low cost. I call it that we at Athene are a mean, lean onboarding machine.

We don't just have 4 organic channels, we're excelling in each of them. And that's what it takes to get the kind of growth that we've experienced from 2014 to 2018. If you look back at 2014, $2.9 billion primarily coming from our retail channel, we're expecting to being between $12 billion and $13 billion this year, far better diversified and should continue to diversify going forward.

So with that top-level look, I'm going to dig down a little bit into each channel.

Retail is our largest channel and a great story. The result is -- it results from consistent execution of a strategy we've had, starting with focusing on improving our credit ratings to give us access to more distribution, using those improved credit ratings to grow from scratch an ability to sell within financial institutions, creating a suite of products targeted at each of those distribution opportunities and then also working to remove roadblocks internally. We can get products to market in about half the time of what it used to take us 3 or 4 years ago. I think the results were impressive and self-evident on this slide.

Keep in mind that we only entered into the retail business in mid-2011. And with that late start, for the past 2 years, we've been the largest distributor in the independent channel. We're growing quite rapidly in financial institutions that accounts for close to 80% of our growth this year. I probably should have started by saying that of the major manufacturers or the major players in the fixed annuity space, we are the fastest growing. Our sales are up more than 25% year-to-date. And in each of banks and financial institutions, we've more than tripled our volume from a year ago, showing that, that initiative is taking fast hold. We've signed master selling agreements with 16 new institutions this year.

We had a slide earlier about structuring and pricing for risk in all of our channels. But in retail, this is the channel where we have the most exposure to policyholder behavior. Retail management certainly embraces that discipline, and that's why we like accumulation product shown on the left-hand side of this slide. They're lower in risk. They have low policy guarantees. No possibility of an income rider. An example of that would be our Performance Elite product, a product which is the market-leading accumulation product. We'll sell in excess of $2 billion of this year. No income rider available.

We also like the risk characteristics of our new Agility product, which only offers a participating income rider, which also provides for better risk management. And where we do offer guaranteed income, we risk-control through product design to have lower risk than the riders of our competitors and also price to a significantly higher spread and reserve conservatively.

I think we've got a great sales culture, really starts at the top with Chris Grady who runs that effort, the most commercial sales manager I've ever met. And our sales culture is we sell product that makes sense for equity investors, not just to generate growth. And I think we're probably pretty unique in that the variable comp arrangement for our sales force explicitly ties them into the net spread that are earned on that business.

As a result of what we've been talking about on the previous slide, we think we end up with liabilities that have better persistency as a result of the features shown in the box.

Bill referenced before that we're not overly reliant on guaranteed income riders. Less than 20% of what we sell has a guaranteed income rider. Industry data is a bit hard to come by, but our best guess is it's well over half of the industry sales and close to 100% to some of our key competitors. And the rider that we sell is also lower risk because our rider -- the roll-up rate on a rider cuts in half after 10 years. The most common form of the rider is for it to roll up at the same rate for 20 years. And lastly, again, it's worth pointing out we believe we price our income riders in all of our business with conservative actuarial assumptions.

A key takeaway I want to leave you with is that we think we can demonstrate in our retail origination that we take materially lower risk and are more conservatively reserved than the people that we compete against.

Wrapping up on retail. The business is doing extremely well. We're growing strongly while maintaining pricing discipline on both our in-force business and our new business. We're maintaining, in fact growing, our leadership in the independent channel while expanding rapidly in financial institutions. And we believe that financial institutions' distribution provides tremendous growth prospects going forward.

Everything is better with higher ratings. I think my coffee tastes better with higher ratings. So that's impacting not only retail but all aspects of our business. And we think we differentiate ourselves with product innovation and the speed with which we bring it to market.

Turning to our flow reinsurance busyness. It's also having a great year. Athene Life Re is one of the industry leaders in flow reinsurance. We're showing here a target of doing $1.5 billion this year. I think that may well turn out to be conservative.

We're expanding relationships. You may have seen the press release this morning from Brighthouse. They are introducing a new suite of MYGA products, and Athene is their reinsurance partner, a great landmark transaction for our reinsurance business. We've also begun a reinsurance flow treaty this month for another household brand, who hasn't chosen yet to make that agreement public.

Growth coming from a number of areas for our reinsurance business. A key one is the LinkedIn deal, which we announced late last year, is now obviously running for the full year. Rising rates have a significant impact on the size of the multiyear guaranteed annuity market, and our flow reinsurance business is benefited by that. And then just the [cedes] that we're doing business with have been better positioned in the marketplace this year. So our flow arrangements, our quota share, is increasing because of that.

The future looks extremely bright for flow reinsurance. Like all of our channels, everything is better with rising ratings but also with rising rates. There's many other reasons to believe the opportunity set is rich. And Bill talked about the restructuring going on in the industry. One of the ways companies can look to manage their capital and their returns, both on existing blocks but on a go-forward basis, is through reinsurance. And what we show on the right-hand side of this slide is that when they reinsure to us, we pay them a ceding commission. And that commission increases the returns on their block that remains with them. And so it's a way that they can either improve returns or choose to invest a portion of that gain into making their products more competitive and to drive underlying growth for them.

Athene has a great value proposition in reinsurance. We've got tremendous experience and expertise from Chip Gillis and his team. We are a Bermuda-based company with tax advantages to offer. We have an ability through our experience to help them manage capital and enhance returns. The takeaway is that in this business, as you've seen in the past year, our success here is accelerating. Success begets success, and doing deals for people Lincoln and Brighthouse has other people in our industry saying, what can Athene do for us?

Turning to FABNs. We had a great year in 2017, establishing ourselves as one of the largest issuers in that marketplace and creating a strong base of institutional investors.

We'd love to do $3 billion every year. But I think this product area may be the best example of the value of having a multichannel origination model and also what we mean when we say we're disciplined in the way we think about and price our liabilities because we've done 0 so far this year. And to go from $3 billion to 0 is kind of painful, but notwithstanding that, given our multichannel origination model, you saw in the previous slide we still expect to do more in our organic channels than we did last year.

So I've talked about 3 of our organic channels: retail, flow reinsurance and funding agreements. And now I'll turn it back to Bill to talk about our pension risk transfer businesses.

William James Wheeler - *Athene Holding Ltd. - President*

Thanks, Grant. Okay.

Pension risk transfer is our newest channel. I'm going to start by giving you a little bit of background about the market.

There are today $3.2 trillion in private defined benefit plan assets. It's one of the biggest pools of money in the world. Where does that money sit? Well, it sits on the balance sheets. The assets and the liabilities sit on the balance sheets of corporate America today. And in general, these plans are not being used as employee benefits anymore. They've been frozen, and they're just sitting there, creating volatility for the underling companies that hold them.

So I picked up a research report recently of a Fortune 20 company, and the first 3 pages of the report were about the company and the business, the last 3 pages of the report were about the pension plan, right, and that's sort of how it goes for many of these old-line companies with big plans. Small movements in plan assumptions or performance can wreak havoc with their underlying financial performance. And so what you see are corporate treasurers and CFOs working hard to figure out what to do with these plans, and one thing that they're increasingly doing is transferring them to a life insurance company in what's called a pension closeout or a pension buyout.

So this chart shows the level of activity, the dollar volume of activity over the past 5 years.

And if you just focus for a minute on 2017, it's $23 billion of volume, which is up nicely from 2016. But if you compare $23 billion with $3 trillion, we're just scratching the surface in terms of the opportunity here.

So a couple things about this chart I want you to take away. One is you see the lift in volumes in '17 and '18. And it's obviously driven by a couple things, but one is the macro environment, both in terms of strong equity market performance and higher interest rates versus where they were make it a lot more -- or a lot less painful for these plan sponsors to exit their pension arrangements. And that's important to understand. That's what drives this market. If interest rates continue to move up, my expectation is, is we'll see volumes move up because there'll be more people willing to transact. When it's stock, they don't have to take a loss.

The other interesting thing about this chart is, the business is seasonal. And there are some theories why that is, but I'm not going to get into them. Most of the business occurs in the second half of the year. 2018 will be no exception. And so we expect a good 2018. We're already seeing it, frankly.

Just a couple of things about the market. The market is segmented, okay. There are about 15 competitors in this business, but most of them are clustered at the small end of the market, doing quite small transactions, a lot of them, okay. We compete at the big -- larger end of the market. We define that as in excess of $100 million case size, okay. In that end of the market, there aren't a lot of deals. There are even fewer competitors, but that's where most of our -- where most of the dollar volume is. So we think that's the end of the market you want to be in, and that's where we're competing. If you look at the 8 deals that we've closed on to date, you see that they're all occurring in that larger segment of the market.

So we've gone from a standing start 18 months ago to being a pretty effective competitor. And that shows up. And we have done 8 deals. They represent $3.1 billion of volume, and that's including, by the way, 2 deals with $500 million of volume in the third quarter, and third quarter is not over yet.

And during this time period, we have been essentially the #4 carrier in terms of market share.

And we are building a reputation as an effective administrator and also a company that's willing to be creative in looking for solutions to plan sponsor problems, okay. There's a -- unfortunately, there a bit of a cookie-cutter element that's kind of crept into this industry where some companies say, "I just want to lift out the retirees, that's all I want to do. And it's the easy way out. And it is the sum of -- the issue of these old plans but, obviously, not all of it. We're -- we think we're being more creative in terms of how we've kind of come up with holistic solutions for plan sponsors, and I think that's going to increase the opportunity for Athene going forward.

So, that's it about the pension risk transfer market. I think what the pension market does, it leverages everything that Athene does well. And I expect that we're going to be successful going forward, and I suspect we're going to get certainly our share of the business in this marketplace going forward.

Now I'd like to switch gears and talk a little bit about M&A. Now we -- I spent a lot of time earlier this morning discussing sort of the M&A opportunity. I'm going to just offer a few slides about sort of the specifics how we approach M&A transactions and how we view them, and I'll give you a sense of how we operate.

So this is a -- that's a funnel, by the way. That's a schematic of a picture of a funnel, okay. We look at a lot of different transactions. That's all those -- we list them there at the top of the funnel. And yes, they're all sort of spread-based asset transactions, but they come in many different structures with many different transactions. And that has an effect on taxes. It has an effect on capital. It -- so there's a lot of ways that -- a lot of complexity actually about how you look at this.

And then we run those transactions through our filters, okay. And question number one is, does it fit our strategy? And by that, I mean, does it leverage strengths that Athene has? So are we going to have an opportunity to invest the assets? No. Well, we're not interested, okay. Are we going to be able to leverage our operating expertise and drive costs down? Good, yes, that's important. So what you're going to see is, in the transactions we do, we're not going to go far afield from where we're at today, right. You're not -- I don't think you're going to be surprised in terms of the kind of transactions we're going to continue. I think you're going to go, "Yes, that makes perfect sense for Athene."

Number two is the risk profile. We want liabilities that are stable, that are predictable, okay, and where's there's not a ton of optionality or potential volatility or -- the more stable the liabilities, the easier it is to invest against them and get the best possible result.

Sometimes, we've debated whether liabilities, even in sort of the traditional end of the life insurance business, whether there's just a little too much variability in outcomes. And when that's been the case, we've passed.

The third criteria is pricing. Now a couple of things. One, you noticed that's third, not first, okay. The argument that it's cheap, okay, is not good enough, right. If it -- oh, it's cheap, but we can get our return bell. Now we have to have -- it has to meet the other levels of criteria first.

And sometimes, the way it -- I won't get into the details, but sometimes these opportunities are super cheap. But when we look at them, we just think they don't meet our risk criteria, right. There's too much potential volatility in the outcomes.

So the other thing is, Athene and Apollo, by the way, because Apollo is our partner in these transactions, we're very numerically driven, right. So when we look at all these opportunities and we line them up, okay, they're often -- it's not always easy to compare how they look, right. So we spend a ton of time doing that, making sure they have the right cost of funds, the right return on capital so that we can make the best possible informed decision about whether or not this is a good opportunity and where we really want to be. By the way, as Grant mentioned, that's exactly how we evaluate our organic business as well because that's obviously also a capital allocation decision.

So this is our methodology. And how has it worked? Well, over the past 7 years -- or, well, we say 2009, but the first deal wasn't actually in 2009, so maybe, okay, call it 9 years, -- the -- we've acquired over $80 billion of assets in a series of both acquisition of companies and also large reinsurance transactions. And we've acquired -- and by the way, that's most of Athene's balance sheet, right. So when you say how have we done, just look at Athene's financial results. The answer is well. And we've done these acquisitions, as you can see, at very attractive prices. And that's important. Getting in at the right entry point is key to an acquisition success. But it isn't the only way we add value, and that's important to understand. It isn't just about getting the right acquisition price, it's also what you do with this block in this business once you get it.

And that's the next slide, our transaction playbook. How do we work this business to take what's oftentimes kind of a troubled company or an underperforming company and turn it into gold, which is how Athene performs? Well, first, we reinvest all the assets or a certain -- a significant portion of them, right? In the case of Voya, our expectation is that we'll reinvest 1/3 of the general account portfolio; may end up being more than that. And we're well on our way, frankly, in that execution. And then we also re-underwrite and reprice all the liabilities in the block. And if we need to, we add reserves.

And the best example of that is Aviva, which had, frankly, a troubled guaranteed income rider block. We added $1.5 billion of reserves against that block. So if you think about the reserve strengthening that I talked about this morning, we've already done it, right, when we did -- at the time of acquisition.

And then with regard to expenses, we integrate every transaction we do or we come up with the optimal transaction or operational structure. And because of that, we're always able to take out costs. It's just a matter of what degree. So when you think about the deals we've done, this is sort of the lens under which we apply our performance, and we've gotten great returns.

So we talked a little bit about the opportunity with M&A, and I think it's large, okay. And we've also said Athene is very well positioned to succeed in this opportunity, we think, better than anyone else in this industry. And why is that? Okay. And this is sort of a summary of those reasons. And so I'll -- let me just walk through them.

So with regard to assets, okay, we have expertise in terms of asset management, in terms of due-diliging the asset portfolio. Obviously, Apollo helps us with that. We also come up with a reinvestment plan that's going to add a ton of value. We talked about the 75 or was referenced 75 to 80 basis points of projected redeployment yield pickup, okay. That's a ton of value creation, okay, in the Voya transaction.

With regard to capital, you know the check we wrote here was in excess of $1 billion, and not everyone can do that. And obviously, we have a lot more dry powder where that's come from for future deals.

With regard to sourcing, obviously Apollo helped us source the Voya deal. And -- but we've also -- in terms of integrating the business, we actually chose in this case to leave administration of the block at Venerable. Just operationally, that made sense. So the only incremental cost that Athene actually had was 5 people to manage the reinsurance terms, okay, and the reinsurance payments. That's it, okay, for a $20 billion acquisition. And so that gives you a sense of the kind of leverage that we have at the company.

Structure. Obviously, Athene's Bermuda structure gives us a lot of advantages in terms of how we can structure deals. The key to Voya was also a structure that Apollo helped provide, which is the creation of Venerable, right. If -- we had to come up with a new entity, well capitalized, to acquire the Voya VA block, which is the whole key to the transaction.

And then finally, credibility. You're often dealing with a partner here, right, an insurance counterparty or somebody you want to make sure is going to do right by your policyholders and not cause you a problem down the road, and Athene has that kind of credibility. Why? Because we have an incredible track record of success in terms of how we've done other acquisitions. Also, when we go to the regulator and we say we want to do this, they understand, and we get a lot of cooperation from the regulatory bodies.

We have great credibility in our key jurisdictions. And again, a great example of that is the Voya deal. From signing to regulatory approval of what was a -- just about a completely unique and obviously complex transaction, 5 months, okay. That's pretty remarkable, and it's a credit to our relationship in Iowa.

So we think that we're going to have a lot of success in M&A, and I think I've given you a lot of evidence why that will happen. We've obviously developed a great track record and create a lot of value, and I think that will continue in the future.

So thank you very much. I'm going to ask Grant to come up here with me again, and we'll take your questions.

QUESTIONS AND ANSWERS

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Okay. So we have about 15 minutes here to address some specific questions on our organic and inorganic channels. Why don't we start right here? If you could just say your name and your firm before you ask a question?

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Suneet Kamath with Citi. So just first on the Jumbo PRT. When you're dealing with just that few competitors, how often has this come down to price? And can you talk about pricing in that large case market?

William James Wheeler - *Athene Holding Ltd. - President*

It's a substantial amount of it times priced but not always. We have been sometimes the lowest price and have not won the deal and vice versa. Some plan sponsors care about price a lot. Some want confidence that there's going to be good service and that their retiree or retired employees are going to be taken well care of. And they don't want to see screwups, right. a lot of times, the choice of who to pick here is made by the HR department in a particular company. And so if there are problems, that's becomes a headache for them. And so they want to make sure that who -- they don't care much about price, but they -- their corporate treasurer may care about price. But they care about that the service levels are going to be maintained. So you see a variety of reasons why plan sponsors pick certain carriers and -- but obviously, we're getting our share.

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Okay. And then on the M&A front, I mean, you've talked conceptually about doing an LTC type of deal. Could you do a Venerable type of deal with LTC just given how long tailed that business is? Could you actually use an Apollo vehicle that was created from scratch to do something in LTC? Or is it just too complicated given how long tailed it is?

William James Wheeler - *Athene Holding Ltd. - President*

We believe it's possible. It has not been done, okay, but we believe it's possible.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

John Nadel from UBS. A follow-up on long-term care. It feels like you've been, over the last several months, pretty specific about long -- a transaction that might involve long-term care liabilities, that those liabilities would not end up on Athene's balance sheet. Can you walk through hypothetically at least what a transaction that would involve a long-term care block might look like and why would you be interested? And how would you benefit?

William James Wheeler - *Athene Holding Ltd. - President*

Yes, sure. The -- so there's 2 ways that we can participate, right. Just -- obviously, we -- you saw the Voya deal. We don't have an exposure with the vulnerable annuities, right, but the company also sold its fixed annuities. So we picked those up, and that's obviously right in our wheelhouse. Similar situation can happen with long-term care, right. It's not -- it may not be the only thing to transact on, and the other stuff might fit our wheelhouse. The other thing about long-term care that's interesting is, you can -- there are techniques you can use to basically bifurcate the liability without being seen as the backstop to the whole policy, okay. And I won't get into what those -- how those work. We kind of view that as proprietary. But there are ways to split it up. Long-term care policy is not only sort of morbidity and claims and longevity risk and ALM, it's also, frankly, just good, old-fashioned asset and interest rate risk, okay. Asset and interest rate risk is what we are interested in, right. And so if we can bifurcate the policy, we can make -- we can focus on what we do well, and NewCo will focus on long-term care.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Understood. That's helpful.

Grant Kvalheim - *Athene Holding Ltd. - CEO of Athene USA*

If I can just add one thing on Venerable. Another aspect that we haven't talked about is it took out a competitor, right. They always reinsured their in-force to us. They got out of the business.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Understood. And then second question is just a related -- or not related, on PRT. Bill, you mentioned that there's a bit of a cookie cutter approach and that there's been maybe more focus on the retiree portion of that $3.2 trillion. Are you implying that Athene has interest in the active employee portion? And if so, how will you manage that risk?

William James Wheeler - *Athene Holding Ltd. - President*

So for everybody's benefit, you can bifurcate a pension plan -- a frozen pension plan. You can just pull up -- lift out the retirees, right, where everybody is in payment stat. I mean, checks are going out for everybody. There's very little that can happen. I guess you can see a little variability in longevity, but, frankly, these are people -- their average age is 75. So it's -- so there's just not a lot of potential volatility. Pretty straightforward business. And there's carriers out there who've said, that's the business I'm doing. Oh, great, but plan sponsors need more help than that, right? Plan sponsors have other parts of their plan which may include deferred lives or people who are actually still working. And so what's going to happen to them? And I think it all depends on the details about whether or not those can be closed out as well, yes. It all depends on how the plan works and what optionality the participants have. But certainly, we can consider plan terminations. And look, there is more variability of outcomes versus just a straight reserve deal. It's undoubtedly true. But we don't think the risk is that much different. So we think the plan -- there are going to be more plan terminations done. And if our competitors are unwilling to kind of do them, I think that may work to our benefit.

Unidentified Analyst

I think on a previous section, there was a slide that said the required return on inorganic growth was mid- to high-teens return. What was the return on the Liberty Life through the Presidential or even Aviva acquisitions? What was the modeled return? And what did it turn out to be? And are we in a different phase where we're ultimately the modeled return on Venerable or a future transaction is, by definition, lower until the next point in the crisis, which makes an opportunity? Or these sort of similar risk-reward transactions going forward to the past may turn out to be better?

William James Wheeler - *Athene Holding Ltd. - President*

Well, this is kind of ancient history because the last of those deals, Aviva, was closed in 2013. But it -- I would tell you all of those historical transactions -- I can't say what was modeled versus actual, but they were minimum high-teen returns, Right. It was a wonderful time, right. Now the environment is more difficult now and it's more competitive. There's no doubt about that. But the Aviva transaction, I think we've said several times it's a mid-teens return deal. If it ended up better than that, it wouldn't surprise me, obviously. And if you think about the liabilities in Voya, it's -- they're very straightforward. So the risk profile of that business is very attractive. So if there was one area where you would want to say mid-teens is acceptable, it'd be that kind of block.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Tom Gallagher, Evercore Both of you had referenced your conservatism in pricing liabilities, particularly on living benefit riders. And Bill, you had mentioned how you reset your balance sheet at the time of the Aviva deal as well. Now the FASB has announced the account -- a big accounting change that's coming for the industry. That was passed in August. Just curious -- and that's -- which is going to change liability assumptions for living benefit riders for an investment product. So I think it's very relevant to the point you made. Any sense for whether you think that'll be meaningful both from an industry standpoint, competitive-wise? And can you guys -- have you done any work on the sensitivity of what that might mean for your financials?

Grant Kvalheim - *Athene Holding Ltd. - CEO of Athene USA*

We're both looking at each other. We might have to pull in Marty Klein a bit later. But my understanding is we feel good about where we are and still analyzing what it's going to mean longer term. But compared to the -- when you look at unlocking in the industry and when you look at where we stand relative to our assumptions when we bought the business, our experience is bearing out that our underwriting assumptions were in line with the experience that is actually manifesting itself.

William James Wheeler - *Athene Holding Ltd. - President*

So I think the short answer is, is that we don't expect much impact on our book at all, okay. But will it push others to have to recognize reserve changes? Maybe.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Ryan.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Ryan Krueger, KBW. In terms of the $50 billion to $100 billion of addressable market that you talked about earlier, do you think that is all -- those are transactions that can all occur today or, to some extent, are some of them more like could be available after we get into a more of a credit cycle again?

William James Wheeler - *Athene Holding Ltd. - President*

It's closer than you think. I mean, are they all available today? Probably not, right. But it's closer than you think. And the $50 billion to $100 billion, obviously that's not just transactions, that's organic growth, too, right. It's everything.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

And I have a follow-up on the riders. There is -- it sounds like you think this is a potential issue for the industry. Is that something that is -- that you think will help transactions now because the other companies are concerned about this? Or is it more the opposite, that companies aren't going to want to transact for those pieces of their book because they don't want to recognize a potential loss that they haven't recognized yet?

William James Wheeler - *Athene Holding Ltd. - President*

Well, every situation is different, right. So people have different criteria. But of course, what's -- I would argue that the loss is coming, right, whether it's triggered by a transaction or because their auditors are saying, you got to do it. The loss is coming. And so the key in my mind is, is, well, what's the interest rate environment? Are you going to wait for better interest rates to transact? Or do you just want to do it now? And so I think that's more the decision tree for these management teams.

Unidentified Analyst

I had a question just on potential variable annuity transactions. I mean, it sounds like you're talking more about other types of business. But is there still an interest in doing transactions similar to Voya? And do you favor products that transition into a general account product like the GMIB that could provide you additional inflows into the future?

William James Wheeler - *Athene Holding Ltd. - President*

Well, it's a great question. Yes, we do think there are additional variable annuity deals to do. I think we're fairly agnostic about how -- what kind of a rider it is, whether it's a GMIB or a WB. You're right that IB provides us with incremental flow, and that's been a nice plus with the Voya deal in terms of additional flow. But I think we would certainly look at both types.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Okay, we have time for one more question in this session. Andrew?

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

So you're going to be a big player in PRT. You've done a lot of big blocks. You had...

William James Wheeler - *Athene Holding Ltd. - President*

We're already a big player, Andrew.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

You're already -- yes, there you go. And you had a little snafu with Aviva. It wasn't -- you had no liability in it, but there was an administration issue there. So I'm curious, as you go into more big blocks, as you do this PRT business, could you tell sort of what you're going to do in policy administration?

William James Wheeler - *Athene Holding Ltd. - President*

Yes, sure. So Andrew was referring to when we did the Aviva transition, we reinsured a block of life policies to become the Global Atlantic. It's all in the public domain. And Global -- and by the way, that happened in 2013. And Global, when they switched their admin systems, had a horrible snafu that they are still working their way out of. They have been fined and sanctioned by regulators, including New York. And frankly, that's not quite over yet. We are completely financially indemnified, but it's our name and -- still on some of those policies because there has -- there's been assumption reinsurance on a lot of the block, but some of them still has our names. So we're involved and it's not great PR. I have to tell you, and I know Grant feels this way, I was kind of -- this has been a searing experience, okay. And even though financially it's not hurting us, we don't like what it's done to our reputation, and I think that's made us doubly careful about how we'll reinsure stuff going forward. And I will use outside administrators. That is what we do in PRT. We have -- instead of building the system ourselves because honestly, I don't think insurance companies are great product administrators, so we see it as a utility, not the real business or focus, we've gone outside, and we used to have a company called Conduent, and we've just now inked another deal with the largest -- we use the first and second largest pension record keepers in the industry for third parties, right. These are the real guys that do this every day for a living, right. And so they're constantly investing in their business. They have tons of redundant systems. Service is everything to them, right, because if they get service wrong, they -- it hurts their company. So they're -- and I would tell you our experience working with them in the 8 deals we've done has been excellent. And so we're -- we thought that was a much smarter way to go. It is different than what the industry has done, right. Everybody else in the PRT business has done their -- does their own administration. We fortunately had a choice. And we decided to use a third party, and I think it's going very well.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Great. Thanks to Bill and Grant, and thanks, everyone, for your questions. At this point, I'd like to invite John Rhodes, the company's Chief Risk Officer, to discuss our robust risk management capabilities. Go out this way.

John Mark Rhodes - *Athene Holding Ltd. - Executive VP & Chief Risk Officer*

All right. Since Bill, Marty and Jim are usually the face of the company, I figured I'd take a moment to introduce myself more formally.

I've spent about 19 years in the corporate world fortunately managing a lot of different types of risks ranging from residual risk, derivatives, valuation. I've had the pleasure or, you might think, displeasure of managing 2 VA hedge books during the crisis. And my last 3 seats have been Chief Risk

Officer for Athene, Allstate and Lincoln Financial Group. So that's a bit about me. I want to talk a little bit about our philosophy here before we get going at Athene.

We believe we need a deep understanding of the market and a risk profile to be able to quickly understand the markets and the environments. And we have to have an accurate process and accurate information in order to be able to act quickly, whether it be on a market dislocation on the asset side or a potential deal.

And so in summary, actually I view my role as an enabler of the business plan. There are certainly parts of this that involve oversight and compliance, and those are very, very important. But my most important role is to ensure we can execute the strategies that you've heard earlier.

And so as we go through this deck, 2 takeaways for you. One, I'm going to talk a lot about what examples we have to show you. There are many more that we demonstrate why we have a comprehensive risk management framework that is on par or better than the industry. And then very importantly, that our asset portfolio is only marginally riskier than the life insurance industry, and I'll show you the analysis that goes for that. And that's well within the margin of our -- excuse me, margin of error for the stress we'll show you.

So just a bit about how we think about risk. We've got an extensive stress testing framework. We use that to inform our limit structure and our risk appetite. We'll cover that in pretty good detail here shortly. It's obviously very comprehensive and integrated, has a policy framework that goes from the board level to the management level as well. And again, I think as I show you these examples, it's very consistent with the industry and certainly my past.

Myself, I have 30 risk professionals that I lead across the organization. They're at all sites, both offshore and onshore. Very relevant for this conversation. I have a team out in L.A. whose sole purpose, only sole purpose, is to set aside the portfolio managers and traders and overseeing the asset and credit risk that we're putting on our books through ALM. Individually, I report to the Chair of the Risk Committee of the Board of Directors, which gives me independence and a direct line of communication.

A bit about risk appetite. You've probably heard that buzzword a little bit in the industry. It's very central to what we do here. And what we say to ourselves is, if we apply certain stresses to our balance sheet, think of those as a recession, which is what you -- actually what I'm going to show you shortly.

(technical difficulty)

William James Wheeler - *Athene Holding Ltd. - President*

I didn't want to show you this because we're going to spend a lot of time talk -- a lot of our -- the rest of our time talking about assets. But again, part of my job, look at both sides of the balance sheet, but I want you to understand really where the risks of the company, and it's not here.

So this is a new disclosure from here forward. Hopefully, I see some pens writing, taking notes, that's sort of thing.

This is our stress framework. It's an important thing to understand. This is off the shelf. I did not create this for you. I did not. This is something we look and do quarterly, and we could do it ad hoc as necessary, as I discussed with [Blair].

What we have here is a selection of market value variables for our recession scenario. We also look at many other types of scenarios, Lehman included. There's examples of bond backups in the past, et cetera, that are also part of our scenarios that we look at.

The table on the right-hand side is indicative of how we think about the stress, but there's an important caveat here. It's not exhaustive. For example, I show you defaults on (inaudible) and (inaudible). Wee actually have defaults across the entire credit spectrum. Obviously, same thing with rates, et cetera.

If you think about what comes out of the stress scenario work, go back to my discussion of Voya. It's capital, post-stress capital, post-stress liquidity, post-stress earnings. What does that look like? It's very important, obviously, to how we think about deals. It's very important to how we think about our rating. It's very important to how we think about our ability to potentially raise capital in the future.

So this page is an example of -- not an example. Rather, these are some key market variables for the last 3 recessions. On the left-hand side highlighted in blue, those are the assumptions we've selected. Again, not exhaustive, but an example.

We didn't cherrypick. One could, but we did not. Particularly of note here, you'll see the housing price drop that happened in '91. It basically was up and down a little bit after that, but, effectively flat for almost 3 years. That's going to be very relevant to the points I'm going to raise here shortly. So again, you can see that we've, I think, been prudent in our selection. What's very important about these 2 as we talk about it going forward, we assume that what you see on this page happens instantaneously. We all know that doesn't happen, but the reality is, is that there is a bit of prudence and conservatism built into the results I'm going to show you as well because of that, but we think about it instantaneously.

This was in Jim Hassett's section. This was going to be drop-off point going forward in terms of how I present our portfolio. We've also take the liberty of taking an average industry portfolio and looking at those stress results.

What you're going to find as a little precursor to that is that the real differences between ourselves and the industry is the next question. It's not a credit quality question.

Here are the results. These are very, very manageable results. We've taken, as I said, the stress on the prior few pages, applied it to our balance sheet and are presenting those numbers here. It's -- the impact is less than 1 year's operating earnings. In fact, you can see there's a a little upside if you look at the bottom and that if everything [attacks] that.

We see this as an opportunity. This isn't a retreat. I know Jim well. We're both -- I'm in the military -- I was, and the last thing, I think, Jim does is retreat. So I think we're going to advance when this happens. We're not going in the other direction.

We're also not trying to predict how long a recovery takes. This is sort of a peak-to-trough analysis, and it's basically pulling forward the effects of a multiyear stress and demonstrating them here.

Importantly, on the right-hand side, this is a synopsis of the methodologies we've utilized. We've taken the liberty of revaluing our entire non-agency commercial mortgage and CLO book with stress defaults and stress recoveries. Again, I think those are prudent. Those things happen over time more, but we -- or rather, they are over time, but we obviously use peak numbers.

Very importantly here, we also -- back to the other pages. If you think about home price, we obviously bring down home prices. And that's going to be very relevant to the results, as you see. It's still only $200 million of impairments pretax. Think about this -- the non-agency book that Nancy manages is about a 6 1/4% book yield today. The stress I'm showing you drops that book yield to 5.75%. And so it's still an outstanding asset class post that.

Very, very important, this also assumes we do nothing as a management team. We [don't have] many levers potentially that we could pull. But again, we've ran this, I think, that, again, give you the sense -- ourselves a sense that we want to measure the trough literally as if we're watching it and doing nothing, which we know that's not the case. But again, all in that context, this is an incredibly manageable result on the recession side.

Very importantly, we've taken the industry average portfolio and applied the methodologies that I had discussed with you on the prior pages to that portfolio. The results are well within the margin of error. We have a very similar portfolio in terms of stress results to the industry.

So the way to think about this is that the difference, as you see there, a bit of an outlier, is the mix specifically around non-agency but very, very specifically around the assumption that home prices drop 3% and kind of hang out there for the foreseeable future. Every recession is different. If there is no impact to home prices, you very well could be looking at something that we have exact performance to the industry. In fact, it could be even better. So to the points raised earlier and earlier, I submit to you that our portfolio is very much on par from the risk profile in the industry.

A few more tidbits for you. Corporates. We think we're actually better positioned in our corporate portfolio. Why? We actually are about 1.5 points underallocated to high-yield relative to the industry, those results show here. We have a very high-quality CLO book, as Jim discussed. Over 95% of that is investment grade given the subordinations and the stresses -- excuse me, the defaults that are happening during these stresses.

The results are well within the margin of error. We have a very similar portfolio in terms of stress results to the industry.

So the way to think about this is that the difference as you see there, a bit of an outliner is the mix; specifically around non-agency, but very, very specifically around the assumption that home prices drop 3% and kind of hang out there for the foreseeable future. Every recession is different. If there is no impact to home prices, you very well could be looking at something that we have exact performance to the industry, in fact, it could even better. So to the points raised earlier and earlier, I submit to you that our portfolio is very much on par from the risk profile in the industry. A few more tidbits for you.

Corporates. We think we're actually better positioned in our corporate portfolio. Why? We actually are about 1.5 under allocated to high-yield relative to the industry. Those results show here. We have a very high quality sale of book as Jim discussed. Over 95% of that is investment grade. Given the subordinations and the stresses -- excuse me, the defaults that are happening during these stresses, those tranches aren't touched. I did speak to non-agency RMBS again. That post-stress yield is 5.75%. I guess we could ask Jim and Nancy, if they could find a 5.75% yielding asset today. They were few lying around, we may not want them, but there are a few. On the commercial mortgage side, we actually -- this is, by the way, post-Voya, so this is [630] book I'm showing you. We have about 3%, 3.5% lower allocation to the industry on the commercial mortgage side, yielding the subside.

And then lastly, on alternatives, a lot of questions about our alternative book. What is it? What's the science behind it? Jim mentioned to you that we have about roughly a quarter in private equity in hedge funds, whereas the industry is in that 80 range. That's a big driver of these results. Our platforms themselves, so MidCap, AmeriHome, et cetera, have a very tailored analysis just under them. As you can imagine, as a business, we require them to do stress testing, so we take those results on a very detailed basis, again very comfortable with those results. Those provide us some upside in these stresses. And then lastly, if you -- the other part of other is our -- a bit outsiders allocation to asset-backed securities relative to the industry. But again, I think the facts speak for themselves here.

And then lastly, I showed you these results on the last several pages, and one could easily say to yourself, well, how do you know these are right? Well, when people do great work, I trust them, but you also have to have comfort that what you've done make sense from an approach point of view. So we've worked with an independent third party for some time to gain comfort in these results, BlackRock Solutions, name well known to many of you. We don't think or do our work in isolation. So I think it's very important as we do this stress results, as we continue to develop these methodologies, I fully expect if I'm back here at a period of time in the future with you, I'll have updated results with updated methodologies and more sophistication. But we don't work in isolation, we try to do industry-best practices. I believe I've demonstrated to you that we have a very sound and comprehensive risk framework, given the examples I showed you.

And very importantly, our asset portfolio risk is very similar to the industry. But very importantly, as many have mentioned earlier, we have outperformed the industry consistently. Thanks again. Appreciate you guys for being here today. Hope you enjoyed the chat. Thank you.

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

Thanks, John. I'm Marty Klein, Chief Financial Officer. Great to be here this morning with you, and thanks again for attending and for your interest in what's been a lot of content and a lot of hours in discussion. So just a little bit longer if you'll indulge me.

I want to speak today a little bit about where Athene is and where we're going from a financial perspective. But before I do that, I want you to know we take being a public company very seriously. And when we say something, we mean what we say; particularly, as a public company it's very important. And I wanted to kind of illustrate this to some extent by going back a little bit in time when we went through our IPO process. And when you go through that process, you meet with your banks and your analysts to provide them your forecast so they can build-out their financial models. So this gives a bit of insight in how we've done versus how we thought we are going to, leading into the IPO. We talked a lot about how we're doing now versus how we did 3 to 4 years ago, since inception. This gives a sense as a public company versus what we are talking about at the IPO, how we've done. We said we're going to grow and we have grown. In fact, we've grown a little bit more than we thought, maybe a lot more.

We said, organically, we'll do $9.5 billion last year, we did a couple of billion more than that at mid-teens returns. Back in the December of 2016, we didn't know what the landscape is going to look like for M&A, but we modeled in what a transaction might look like, $15 billion. We did $19 billion with Voya. So our invested assets are closing in on the $100 billion versus what we thought might be closer to $90 billion with some pretty aggressive growth targets. We thought we'd get mid- to high-teens returns on Retirement Services. We've gotten high-teens to actually over 20% along the way. We've been expanding our margins, and our operating income is $350 million higher than last year than we would have otherwise thought. So we take it very seriously. We try to project up pretty investors goals, but we try very hard to execute and outperform.

One thing we said at the IPO and it's true today, but I want to kind of put it in the context of where we are today is, how we're going to grow. And it really starts with -- we have a pretty significant in-force, it's very profitable getting mid-teens returns and that now sits close to $100 billion of invested assets at a 2% to 3% investment margin. Such a tremendously significant and pretty stable base of earnings on which to build. That alone, I think, is pretty good spot to be in. And then from there, there's really 3 ways that we would really grow our earnings. First and probably foremost is really just growing the balance sheet, getting more business on our books, organically and inorganically. And you've heard Jim and Bill and Grant talk today about the organic opportunities and the inorganic opportunities, and here we are today, to be able to keep in better than they did back when we were doing the IPO less than 2 years ago. And as we do that, we've been very focused on getting those mid-teens returns. So we're growing our balance sheet. It's just about 50% larger now than it was at the time of the IPO. So it's pretty significant growth for a company in our history and much less any other industry. But that's not the only source of earnings growth. We think we can improve our profitability. It's not many growth companies that are improving their profitably as they go along, but we're doing that and we expect to continue to do that. We've got this fully built-up platform West Des Moines, Iowa. You think about Athene, we made $1.1 billion last year in operating income. We have 1,100 employees just about. It's pretty efficient. About $1 million per employee, not a lot of insurance companies or companies in our industry or many other industries have that kind of efficiency. But it's pretty much built-out at this point. So as we do more business in the spaces that we operate, we don't really need to add much in our incremental expenses. We've seen our expense leverage improve by just 5 basis points this year with the addition of the Voya transaction. You heard Bill talk about. We've hired 5 people. We brought on $19 billion of liabilities, that's pretty good leverage.

We also at the IPO and this is -- this turned out to be the case and we think there's further upside. I think we can improve our investment margin. We shoot to be in the 2% to 3% range and we've been nudging up on the higher end of that and we think there's some more upside from there. So that's how we're going to grow. That's how we've grown and that's how we're going to continue to grow. It's pretty simple strategy. The execution is not as simple, but the strategy itself and the business model is very straightforward.

We also talked about some growth accelerators, things that could happen that could further supercharge our ability to generate business or improve earnings. And some of those things, actually many of those things are happening, but we think there's more to do. There are more opportunity to come. Interest rates have gone up quite a bit since just our IPO, 40 basis points just about on the 10-year treasury. We're in recovering economies. We expect to continued upside there. And as others have said, rising interest rates are a beautiful thing for Athene. It makes our products look more attractive and it helps our earnings. On the alternative side, we've performed, since the IPO, pretty much in line with what our own internal thoughts were about close to 12%, since the IPO, in aggregate across our alts. But alternatives now, particularly, post the Voya transaction represent about 4% of our portfolio. So we have opportunity to bring that up to something like 5% and 6%. And if we're able to do that, that will provide further margin and earnings upside.

Ratings are very important to us. We said that we wanted to get ratings upgrades and that would help accelerate our growth. And, in fact, that has been happening. We've got 2 upgrades so far in the last year or so with A in best, the single A. We're seeing the effects of that now. And just very recently S&P, where we'll see the effects of that over the next 6 months to a year. And we're working very hard to turn Fitch from a stable outlook to an upgrade to single A. We'll, hopefully, have that opportunity later on this year. And finally, now versus where we were at the IPO, as good as we felt about our ability to grow inorganically, it had been a number of years since we'd really done that. We think now and you've heard Bill speak to this, the opportunity is very ripe and a lot of companies are really finally getting on with the restructuring. And the other thing that's happened is, with Apollo's expertise, we're able to transact on the variable annuity side of the Voya, and that's something that was necessarily in our radar screen a couple -- 2 to 3 years ago. So we're even more or even better positioned now as an insurance solution provider than we were a couple of years ago. So these growth accelerators, we capitalized on, but we think there's a lot more to do.

Lots of bars on this page, maybe not as many as some other pages that we've had today. But basically, the punchline is, operating income over the last 3 years were up over 40%. Again, very significant, driven by a lot of those growth aspects that we spoke about. Our margins have continued to improve on the investment margin side. We're up handily over the last 3 years. And our earnings, as a percent of assets, continue to improve and that margin continues to improve. So the dollars are growing. The efficiency is growing. That leads to just in the 3 years, a 44% increase in GAAP book equity, pretty nice numbers.

I want to spend a minute on operating expenses. Just to give you a sense where we were, where we are and where we think we're going to go. This really just assumes organic growth. In the go forward, if we do some inorganic deals, which we expect to do, it'll just further improve these numbers. And on a consolidated basis, heading into the IPO, we made a number of investments. [In a theme] if you want to make sure that we're -- our operating and financial platform is good to go as a public company, we're also then building out our ability to enter the PRT space, hiring actuarial staff and a leader in the space, Sean Brennan, who's here today, runs that business. And getting onto some additional platforms in our retail business. So you saw our expenses tick up in basis points a little bit, but now we're pretty built-out. We are good to go for adding new business. With the Voya transaction, we suspect this share will come and consolidate around 32 basis points and that will drop a bit more next year as we get the full effects of Voya and we continue to grow organically. As we do inorganic deals, that'll just further improve.

This gives a little bit of a sense for how we're going to grow and, obviously, you've heard that, but obviously, we put on volume, we put on organic volume, but we do have an in-force and that begins to lapse away. But the nut of it is still pretty impressive. We're a leading operator in our organic markets. And just with organic growth alone, we're able to grow it pretty handily. I think if you look at the numbers here for the year 2016, we grew from $65 billion to $75 billion, $10 billion in growth, just organically. We didn't do inorganic deal. We didn't do a deal that year. Just organically, in the channels we operate at mid-teens returns, we grew by $10 billion. In the last 1.5 years, with organic and inorganic clicking, we've grown by over $20 billion. So that's what it's like when everything clicks, and we think the go forward, things are going to click even better.

We have the ability to pivot and that's been important. Each year, we have strived to get mid-teens returns in our organic business and we have done that. We get there different ways in different years. Last year, we did, for example, a lot of funding agreement business, this year we have not seen the opportunity, and we haven't really done anything in the public markets. We did some couple of small deals with the FHLB at very attractive returns. So we have the ability to kind of move capital to where we're going to get the best return.

Bill talked about this a bit, so I won't belabor it, but when we say mid-teens returns, we're talking about statutory IRR, internal rate of return, plus sidenote, at 400% RBC. Some companies that I'm aware of use 350% RBC or something like that in their pricing. We're booking this with a full capital that we think we need to operate the business at 400% RBC. And to some extent, as we operate in Bermuda, there are isolated cases where there's incremental capital while pricing as well for longevity risk and so forth that's not really captured in our RBC numbers.

So that's what we do as we look in price business organically or inorganically. We also look very importantly at spread. Spread's very important, you can have a high IRR and not get that much spread. We want to make sure we get lot of spread as well. But we think those IRR numbers unlevered, transfer to GAAP ROE unlevered at mid-teens returns as well. And then you put leverage on it, 20%, 25%, we're only at 12% now, that gets us to a kind of high-teens ROE expectation for our business. The industry, as you saw earlier today, 7%, 8%, may be in the current environment they're making 10% 11%. We think we can be just about double that, fully levered.

This has been said many times, I'll say it again, because I'm CFO, I'm supposed to say it. We have incredibly strong balance sheet, strategically, that's for a couple of reasons. One is, we want to get ratings upgrades. We've been successfully getting them. We want to get more. We want to turn Fitch to single A. We actually would like to get to A-plus if we can over time with these 3 agencies, but they move very incrementally and methodically. But that helps us do more business in our channels, across all of our channels, makes us a better counterparty, and it also reduces our cost of funds in certain cases. So getting ratings upgrades and going from where we are to single A across the board; and hopefully, at some point, maybe even to A+ if we're able to get there, it'll just help us grow and become more profitable. We also want to hold a lot of excess capital. We have a big war chest right now. We have $2 billion in excess equity capital, a couple of billion untapped debt capacity. And even we're deploying as much it as we possibly can, we always want to hold some and have access to some. We've made our mark by being opportunistic. And on the asset side, obviously, years ago, some -- so many acquisitions that we made. So we want to make sure that we always have some excess capital, so we can pounce on opportunities and do it very, very quickly. So that's an important part why we have excess capital we have, not necessarily it was going to be at these levels.

But, I think, the other thing to note is, it's not just the capital, we have just a pristine balance sheet. The cleanest liabilities you can have and most predictable. I've been around the industry a long time as have my colleagues. There is a tremendous amount of risk that can be in insurance company balance sheets, and that persona was fully appreciated not only by investors, but sometimes my actuaries, oftentimes back actuaries and financial folks and management. But it's not the case with us. We're very low leverage. We've done the first bond yield this year. We're about 12% levered now, single A and AA companies are typically 25% to 30%, we're less than half of that. We wouldn't inspire to ever be really above 25% debt-to-capital, we'd expect to normally operate probably below that -- significantly below that.

We also have very strong reserving. We've spent some time on that. I'm going to spend another minute on that now. You don't hear in the fixed index annuity business much on reserving. In fact, this morning might be the first time you've really heard about it and others have spoken about it. And reserving in the insurance, since is a very common topic, long-term care and all the things that happen in the variable annuity business, companies had to strengthen reserves, but in most spread liabilities, it's pretty straightforward. You get your deposit, and it works like a bank, and you put it here and your reserve is effectively your account balance and then you earn a spread on it. And there's not a lot of reserving controversy with that. The difference is when you have fixed index annuities with riders because those riders accumulate, but they also provide some guarantees -- some lifetime guarantees for the future. So that's the part where the reserve comes in. It's this rider reserve that we call or the SOP reserve is the GAAP lingo for it. And that reserve is really -- it's all assumptions. It's all assumptions. But what do my lapse rate is going to look like as stuff comes out as surrender charge, how much are people going to utilize and when do they utilize? What do the account balances look like? It's a bunch of assumptions that when you time you price a product, those are 10 to 15 years out, so we take it very seriously. We're a public company, we're supposed to. We've always taken it seriously. It's very important in your GAAP reserves to make sure they reflect what you think is going to happen, that's basically the rules of the road. So we take that responsibility very seriously. We look at these things every quarter. We look at our experience. We look at assumptions. Every year, we do a very deep review when we do an unlocking. Every 2 to 3 years, we do a very extensive, very detailed review of every single assumption that we've got and true things up. But what that means is, we've done a very good job of making sure that our assumptions are aligned with the experience that we've seen to date and kind of what we think about the go-forward. So my illustration to that very tangibly, the quarter before we went public, the third quarter of 2016, we did our annual unlocking and we trued some things up. We didn't see lapse rates. We saw lapse rates lower, partial surrender charges lower, made some adjustments utilization. We took $158 million charge in the third quarter of 2016. By the way, right before we went public, we wanted to make sure we clear the debts and we got everything up-to-date. Did it a year later, very modest. At that point, we already kind of brought everything pretty much up-to-date so it was about $20 million, so we take that responsibility seriously. I would say that reserving practices -- we've heard regulator say this to us, and kind of in these words, "We're all over the map." And so we don't hear people talk about it, but we would encourage you to ask us and ask others in the industry these questions. One thing we're going to start disclosing is what our rider reserves are in kind of the associated account balances. For us, currently, our SOP reserve, our rider reserve on a GAAP basis is about $2.7 billion. That's really against account balances that -- with riders that have a little over $35 billion. So that ratio is about 8%. So you may ask yourself, I don't know, is 8% a reasonable number? You have no way to know other than telling you it's a reasonable number. Nobody else discloses this stuff, but it's very important because the rider reserve, $2.7 billion, companies could -- with different assumptions and sometimes with original pricing assumptions might only have $1 billion reserve -- rider reserve as opposed to $2.7 billion. Other companies are fully reserved, but we've observed it's all over the map. So these are ideas and concepts and questions that you should be asking not only us, but others in the industry.

And we will disclose rider reserves in this ratio in our quarterly financial supplement going forward. One of the other areas of balance sheet management is asset risk and you've heard folks talk about it quite a bit today between Jim and the AM team and John Rhodes. There's another measure that sometimes people ask us about, the asset leverage ratio. Well, I could be kind and say, it's flawed. Or I could be accurate and say, it's essentially useless. So I'll choose to be accurate and it's essentially useless. And I'll tell you why. It does nothing to measure the level of credit risk in a portfolio, absolutely nothing. It's kind of a arbitrary example here, a little extreme, but it doesn't distinguish on what -- how your company's invested. It could be in cash, it could be in treasuries. We've got an example here; a company is 100% in NAIC 1 corporate bonds, another company is in all alternatives, obviously, an extreme example. What's the asset leverage ratio in this example? $100 billion balance sheet, $10 billion capital. It's 10x. Oh, okay. It says nothing about the level of risk that the company is taking, absolutely nothing.

The RBC ratios -- and RBC ratio is just like rating agency models, have risk factors that compensate for different levels of risk, adjust for that. So, obviously, massively different RBC ratios. So looking at an asset leverage ratio and making a conclusion that a company doesn't have that much investment risk or has a lot is really -- it's a totally meaningless measure and it really is incumbent to the kind of do the work. If nothing else look at RBC, C1 factors look at rating agency report, so we can parse it out.

One of the other flaws is that there's a lot of them. Another flaw is that it uses GAAP equity as the measure of capital. Well, GAAP equity is sort of a measure of GAAP book value to shareholders, but it's not really a measure of capital build the company has. When we're looking to do transactions, we're looking at our statutory capital, that's where excess capital is based on. When we're looking at our ability to absorb losses, it statutory capital, that's what counts. Our statutory capital of Athene is about $2 billion higher than our GAAP equity. We have $8.4 billion of GAAP equity. We're about $10.3 billion in stat capital. That's the number -- that's the capital that we have to absorb losses. As flawed as asset leverage is, if you use that in the denominator, it would take our asset leverage down over 2x. But again, I would recommend that I recommend you look at RBC.

Finally, what other asset risks are there? We've talked it. It does nothing to distinguish levels of credit risk. What other investment risks are there? Well, there is asset liability risk. Again, has nothing to do with that. And companies that might have had an asset leverage ratio that looked really nice before the crisis may have found after the crisis that their earnings were really significantly hurt because they have long liabilities and low-interest rates really hurt their earnings quite a lot. Asset leverage ratio didn't say anything about that. Nor does it really talk about liquidity risk, which is really driven in our industry by how liquid or illiquid are the liabilities. So we want to bring this to folks' attention because once in a while people talk about asset risk and they'll focus on it. And really, we'd say don't look at it, it is totally meaningless. We want to try to give you information that's meaningful, this measure is not.

We've been pretty patient and disciplined stewards of capital. In some environments, we get pressured to be less patient and we are going to continue to be patient. Year-over-year, this kind of gives a sense for how we're generating capital and where we're getting it and how we're spending it. We said many times that our organic growth is really funded by our in-force business, and this gives little bit of a picture of it. So for example, 2016 from a statutory standpoint, we made $800 million in earnings on our block, that's on the stat basis, and also with some of the runoff in the business -- business lapses and we had some asset runoff that was another $700 million. So we had about $1.5 billion of capital coming off of the in-force.

We found about a billion of opportunity in our organic markets at mid-teens returns. We would have like to have found more, but we couldn't find it, so we spent $1 billion of our capital and our excess capital increased that year by about $0.5 billion. Carry forward into this year, it's kind of a push. We've generated capital and we're spending it. Organically, we're growing well organically, and we took a couple -- $200 million against Voya. We funded that with $900 million of debt and capital we're putting behind it, it's about $1.1 billion. So that's the $200 million, so kind of a push. But we've been very disciplined every single year taking the capital we get, putting it to work at mid-teens returns, and for the most part that means that we're kind of steady state on excess capital. But there are going to be times where if we can't find the opportunity that capital might grow. And you heard earlier today about us, maybe kind of retooling things for the Fat Pitch that may come along, so we want to be very mindful of having enough capital to take advantage of that.

Bill talked about the levers that we have on deals. So I won't belabor this, but there's, historically, 4 levers; buying things at discount to book, the structural advantage we have as a Bermuda reinsurer, the asset redeployment with expertise we have from AAM and from Apollo, and that stable -- and that efficient platform that we talk about from an operating standpoint. Those are the levers.

In the current environment, that first lever discount to book isn't really clicking, and we don't need it to click. We were able to do the Voya transaction and get mid-teens returns and take a business that was earning 10% to 12% and get it to 15%, just with those last 3 levers. Kind of the Fat Pitch you heard talked about is where we also hit on that first lever where we're buying things at a big discount to book. And we think that opportunity may be coming down the road. But it gives you sense, in this environment, we may not get that part of it, but we get to mid-teens or better returns without the discount to book. But when the environment go south that would create just that much more opportunity.

So we have $4 billion of capital to spend, $2 billion of excess equity, $2 billion of debt -- uptapped debt capacity. What would that mean financially to Athene if we're able to put all that to work. We think there's more to do than just that, so here is $1 billion example, pretty simple, but -- and it's a pretty simple business model. If we had excess equity capital sitting on our balance sheet that's earnings 4.5%, maybe 5%. So we're getting, say, $45 million a year on that capital. We put $1 billion to work at 15%, it's $150 million, pretty easy math. So incrementally, the earnings pickup from that is $105 million. Earnings per share has about $0.50 pickup and our ROE improves by about a point. Numbers are kind of similar for debt because we pickup $150 million, but we'll have debt service, it's probably around $45 million, $50 million, so the incremental earnings benefits are about the same.

So what if we do that 4x, $4 billion. That's a 4% pickup in ROE from where we are, and that's $2 a share at least in EPS. With any kind of decent multiple, that's at least $20 a share or probably more in value. So that's part of the opportunity that's in front of us, excluding anything we do organically to keep growing as well.

I wouldn't be a CFO and this wouldn't be Investor Day, if I didn't give you a little bit perspectives on earnings. So let me do that before I close out. We're pretty well positioned as we head into next year in a lot of these measures, so we're trying to be a little bit more transparent with some of these measures and, hopefully, you'll find that helpful. We expect our NIERs to do about 10 basis points better from what we see right now from where we were last year.

By the way, on the NIERs, I would say, this reflects returns after fees. And one sidebar note I'll make because a couple of folks have asked me on the breaks, on the new fee construct, what does that do? Well, I'll give you 1 perspective on it. Under our financial plan, which we have, like other companies have, you kind of figure out how you're going to do over the next 3 or 4 years. And that involves how we think we're going to allocate assets, if we took -- we've taken the new fee construct and modeled it against the old construct, just under how we thought we're going to be allocating assets in the environment where we're not really getting paid to reach out for yield. In that construct, our fees actually shrink by a few basis points over the next 3 to 4 years. But as you've heard earlier today that alignment of interest -- there's going to be opportunities where that scenario that we played out where it's not a really high offer scenario plays out, we have opportunity where it'll be more in fees or it could be less. Just to give you sense and the kind of status quo, it would probably drop a little bit over the next few years with respect to fees.

Cost of crediting will probably go up just a little bit, a few basis points next year due to higher credit rates, not on our in-force, but really on our new business that we put on that we're, obviously, getting it back on the investment side as we get new money. Or the liability costs will probably go up about 5 basis points, but really that's coming -- if you think about what's another liability cost us, really largely 3 things; DAC amortization, rider reserve increases, and the interest credited on our institutional business. It's that interest credited piece on the institutional business that's going to make that go up. So remember, as you model it in, make sure you model much more than that coming in on the investment income side. Because we're not going to write institutional business and credit interest rate, in that earn and return, we're going to earn a better return.

Our expenses, as we said earlier, are going to continue to go down. This is really on the Retirement Services basis. Again, that just assumes organic growth only, nothing inorganic. In our tax rate, as we talked about, on our last call, we're in the middle of executing and just about done executing the step in our tax strategy, which will get our tax rate below 11%. I will talk about that a bit in the second quarter and we'll provide more information on that in the third quarter as we've executed.

So to wrap up, we're very well positioned as we head into 2019. We have very strong earnings. We have a very strong balance sheet. We're extremely well positioned in the markets we operate. We have a really big war chest at a time where the insurance industry is its early innings of restructuring. So as well as we've done historically either to the IPO or since inception, we feel even better about our future. Thanks very much, and let me turn it over to Jim.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Thank you, Marty. Marty that was a very good presentation, but you went 10 minutes over. So we'll talk about that a lot next time. So the 3 hours of presentations and discussion we just went through is really the foundation for and culminates in this last presentation, which is about shareholder value. Many times it's mentioned that we're careful stewards of shareholders' capital, and that's true. We manage shareholders' money as if it's our own because it is. But I want to emphasize this next point, which is, so we're very proud of 9 years ago starting this company that now has a market cap just under $11 billion.

But let me make it very clear, we weren't in it and we're not in it for just long-term creation of some shareholder value, long-term creation of significant shareholder value. We are in this for long-term creation of massive shareholder value, and we think we're well on the way to doing that and very well positioned to do that. So our performance in the past is summarized here, 24% Retirement Services, adjusted ROE over the last 3 years, far better than others. 17% consolidated ROE, operating ROE. And this last metric, the growth in book value had been mentioned many times, but it is very compelling. Our friend, Mr. Buffet focuses on those. 17% since inception growth in annual book value appreciation, 4x what the industry average is. Our results are superior, you can see far outpacing the rest of the industry. Attractive ROEs, 1,000%, 10 points better than the industry. EPS growth based on trailing EPS, annual growth rate 400 basis points better. And then we talked about the growth in book value, 1,300 basis points better than the industry.

And we have a huge opportunity in front of us. This has been mentioned several times, starting with our $100 billion of invested assets now. Organically, over the near- to medium-term we'll add about $50 billion, we believe, still of attractive mid-teens returns. Inorganic opportunity based on our $4 billion of "dry powder," another $50 billion. So we get to $200 billion far faster than we got to the first $100 billion. And that's only using today's capital and capital generated from our go-forward earnings.

Even at slightly better share price now, we have no plans to issue equity right now because we think there is still lot of upside in stock price, which we'll get to. On that count, our value proposition, share price rise is very compelling. We have growth and sustainable characteristics at a discounted price. We have mid to high single-digit returns in our organic business with appropriately priced inorganic opportunities as well, that provides a significant kicker. 10% trailing CAGR on earnings, 17% trailing CAGR on book value, successful execution, extending into new businesses, adding complexity to the mix, but you can see the metrics on our share price today, 7.4x PE, 1x book value.

We don't sway in the wind and worry too much about day-to-day fluctuations in the stock price. It is nice to have a appropriately priced currency, but our focus and really our only focus is on long-term shareholder appreciation. Many of you use regression analysis to analysis things and so we thought we would, in difference to some of the ways you guys look at it, do a regression analysis here. So you can see the companies that we have analyzed. I will tell you that Athene's performance that we've been talking about all day today far outpasses -- outpaces most all of these companies. Not only we're not on the line, we're significantly below the line. And it really implicates that we have a huge discount in the share price from where it should be trading, more than a 20% discount. So I think it's in a very attractive time to be buying the stock. Look, we've been talking in the past about peer groups for Athene. I think we do ourself a disservice if we only look at other insurance companies as peers of ours because we think we combine the best attributes of a lot of different high performing companies. So we took a stab at another peer group shown here. We share similarities with a number of these peer groups like consistency of growth, food and capital management, stellar management, high returns over time. Some of these are best in breed, which we definitely think we are best in breed.

So comparing ourselves against various types of groups, I think, yield some interesting results. See the S&P 500 listed first. The mean of the group of the companies we just went through is second. Average of life insurance companies that we've selected for noted in third, and then, us is the bottom -- we're at the bottom. And the metrics we use are revenue growth, operating margin, earnings, PE multiple and PE -- and price-to-book multiple. So we outpace all 3 areas in revenue growth significantly. Operating margin was 18%. We're in the ballpark of the best in breed peers at 23%, significantly better than the average of other insurance companies and the S&P 500.

Earnings growth is a similar story. In the same area as the mean of the financial services peer group, 10% versus their 12%, but far better than the average of life insurance companies and the S&P 500.

And then, here is about the valuation we got, the PE multiple. Ours is just over 7%. The mean of these underperforming to us insurance companies is 8.8. That best-in-breed peer group, 18.9x PE, and the S&P 500 is at 18x. It's a similar story on price-to-book multiple. We're at 1x, same as the other life insurance companies, half of what the average of the best-of-breed peers is and a third of what the S&P 500 is.

So you've seen this slide before or versions of it. Four key takeaways for today are we are a growth company, and we're profit driven. We have structural advantages that will continue to produce high returns. We create value on both sides of the balance sheet and outperform on both sides of the balance sheet. Asset differentiation is a key part of our value proposition. Our excess capital position and debt capacity provide a line of sight to significant growth ahead.

We really appreciate you spending the morning with us. We hope you found the presentation informative. Before we start our Q&A, I just want to thank Noah and team for all the work they did in this presentation. Plenty of people at Apollo and Athene were involved in this. I've been here from the beginning. This is by far the best presentation we've ever had. So I hope you found it informative, and we can go to M&A -- Q&A now. Thank you very much. Maybe both, yes.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

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Great. So just to wrap up. We'll have probably 20 minutes, 30 minutes of Q&A for the team. In addition to the speakers you've heard this morning, we also have to my far right joining us for this panel, Marc Rowan from Apollo. Marc is the Co-Founder and Senior Managing Director of Apollo. And I should also note that he's a Director of Athene and have been part of Athene's growth since the very beginning. So please feel free to raise your hand if you have questions in the room, and perhaps we'll take some online as well. Can we start right here?

Ronald David Bobman - *Capital Returns Management, LLC - President*

Ron Bobman, Capital Returns. Actually, I had a question made directly -- directed really more for John Rhodes, but I'm sure any of you could probably handle it as well. John spent a lot of time talking about investment risk and liability sort of variability, but not a lot of discussion on operational risks like misselling and the retail channel, key vendors' service levels like the DXC experience, contract wording, through that the whole realm of operational risk. A, does that fall under John Rhodes' area as well? And what resources are allocated to that?

Grant Kvalheim - *Athene Holding Ltd. - CEO of Athene USA*

I can take that. So yes, that does fall under John's mandate. I think we're in a great position there. We have a very strong compliance team that focuses on issues like misselling and consumer complaints. It was mentioned earlier, we're investing money to improve the customer experience. We monitor things like complaints, complaints to us, complaints to the departments of insurance. They run at a very low level. We also monitor consumer satisfaction when they call into our call centers. That runs well in excess of 95%. We did mention that there's some lessoned learned around the transaction that we did with Global Atlantic and that there's things that we can and will do differently going forward. So we spend a lot of time on operational risk. And as John mentioned, the senior management is directly involved in those committees. Our disaster recovery has improved significantly, and we're running full disaster recovery tests on all our systems and getting great results. So I think we're actually very well positioned in that whole area of governance, compliance, consumer issues, operational risk, disaster recovery. I will tell you one area that has increased significantly is people trying to take over accounts, right, and then withdraw the funds. A lot of that comes from the IRS information that was stolen into 2015. Relative to the industry, we've had an extraordinary low rate of loss because of the close coordination that we have between our operating teams and legal compliance teams and the risk teams.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I'd mention, I think we have the single best insurance person in IT. I think Randy has done just an unbelievable job in cyber risk and IT continuity and ease of execution. He is off the charts.

Ronald David Bobman - *Capital Returns Management, LLC - President*

And just to clarity, Grant, your comment as far as people getting control of the accounts, you're referring to hackers?

Grant Kvalheim - *Athene Holding Ltd. - CEO of Athene USA*

Not so much of hackers. People using stolen personal information, so they come to us with they've gained access and the biggest source was the IRS hack in 2015. So they come to us with knowledge of a person's name and address, their Social Security number. They pose as the policyholder and try to withdraw funds.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

Elyse?

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

Elyse Greenspan, Wells Fargo. So a couple of questions. My first one, you guys spoke about sitting on about or having about $4 billion of capital, a combination of excess and room on the leverage side. You also made the comment that you'd like to have a buffer on hand at all times. What size buffer do you guys want to maintain on an ongoing basis? And if we go out a ways of time and the opportunities that you've defined out there do not materialize at what point, might you consider buyback or alternative uses of capital?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Hopefully, at least, one message that came through the presentations today is we have a ton of opportunity in front of us, and the company with the most capital and the expertise is going to win the day. So buyback shares is not in the offing for us. I mean that things change. We're very flexible on capital employment, et cetera, but given our pipeline, the opportunity we see out there and our ability to execute, we want to use all of our capital we have now first, and then we'll think about what we want to do after that. But there's -- we're not thinking seriously about a stock buyback.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I think I'll add on to that. I think one of the most important issues is how we manage our capital. We know that the industry is in what I'll call late cycle behavior. They're taking asset risk, they're taking a very aggressive view on their liabilities, they're leveraging up and they've played every regulatory capital trick in the book, so there is no capital left in the industry. We know that the fat pitch historically comes during periods of market turbulence. We want to have capital to take advantage of market turbulence and add liabilities when spreads are wide. And that's how you make massive gains in shareholder value rather than incremental gains in shareholder value. Single most important debate I think, taking place within the company today is how much capital to deploy today at really nice rates of return versus how much capital to hold onto for the fat pitch. And there's no uniform answer if you went down this road. This is what the board -- this is the #1 conversation at the Board of Directors. How much 15% to 17% business do you take in the next period of time versus how much do you hold capital, wait for 25% plus that you can lock in for a decade? How we balance that, how good a job we balance that, I think, is going to be an important determinant of stock price. But we may be wrong, but we're focused on it. And I think Jim opened the day by saying what our interim conclusion is -- raise the bar. Raise the bar for new business, raise the bar for flow business, raise the bar for incremental acquisitions. So in the message I think that came through today, and certainly the message we try to, is the bar has been raised. We want higher returns. There is no shortage of things to do today. And this is with the industry and the stock markets up, everything benign. The moment we get volatility, I think we're going to have a monsoon, as I sometimes say in my speech, of a financial services opportunity.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

And then -- sorry, just one other question. You provided -- gave the same tax rate guidance you guys have given on last quarter's call. It sounds like you want to wait up till the third quarter to provide a full update. But you did mention, Marty, that you're basically done on the tax side of things. Can you provide us a little bit of commentary on what you guys have been doing to get your tax rate down? And how much lower than 11% can your tax rate come in? And can you give us any kind of clarity on what the Q3 rate will be as there will be a catch up for earlier in the year?

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

Sure, Elyse. Something -- the tax reform happened -- beginning to happen about a year ago and the President signed it into law just before the New Year, so happy New Year. And so we've been working fervently and diligently on it since the time. We've got a number of strategic advantages that we've talked about with our investment capabilities, our platform, but that structural advantage we had with Bermuda has been very important as well. We put the first step in place earlier this year, so that whether the BEAT, the Base Erosion and Anti-Abuse Tax would never gross, our maximum tax rate would be 15%. We basically were taking everything and becoming effectively a U.S. taxpayer at 21% rate, and there's a significant amount of income we get at Athene that's not subject to U.S. tax. For example, our capital in Bermuda is not subject to U.S. tax. So the incremental step is the one we're working on. We're going to continue today to be cryptic about it. But I would say that we've worked on it for many, many months. We have a tax opinion from a blue-chip accounting firm. We worked with white-shoe -- lots of colors out there -- legal firms that are tax experts, to also look over shoulders at it. And then, we've been through it with our auditors at PwC. So we feel very good about where we are. We've got a tax team, we've got experts in tax law looking at it, and we've gone through the waters. So we're now just basically putting it in place. It will be retroactive to the beginning of this year. I suspect the tax rate just for the whole year is going to be below 11%, maybe close to 10%, give or take. But that's going to go into effect third quarter and it will be retroactive, so I think it's quite possible we actually have a negative tax rate for the quarter because we reported it between 14% and 15% in the first and second quarter, so there's going to be a big catch up because as we implement this strategy, it's going to be effective for the entire year.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

John Nadel from UBS. Marty, all these NAIC changes, formula changes to risk-based capital, some accounting issues, can we simplify that and think about -- I think, the cost of the liabilities that you guys put on the books from a capital perspective -- statutory capital perspective is about 7.5%. Is there any significant change in that, that you see?

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

No. So the NAIC, maybe like the FASB, is constantly tweaking. Some of the tweaks make sense; some don't. The adjustment they're making now that's well, at the end of this year is for the tax rate, right? And they're changing the C1 factors to reflect the new statutory tax rate. That for us and for everybody else will reduce RBC ratios. We really -- that 400% RBC threshold we talked about publicly is really a shorthand for the more important measures we look at, which is how do the rating agencies look at us? Well, the rating agencies we use, A.M. Best and Fitch and S&P, their capital factors are pretax factors, so it doesn't change anything for them. So there's really effectively no impact from the tax law change on how we look at capital even though it's changing NAIC RBC. I'd make a sidebar comment. It's a little bit different for others in the industry because Moody's doesn't have their own models. They use RBC. So companies that use Moody's ratings, they have to deal with this, and it's probably going to have [for this rating] maybe a 10% hit to RBC ratios. But economically and under rating agency models, I think John you're right that 7.5% kind of number is about right, some liabilities are right it's closer to 7 or maybe a little bit below; some others, it's a little bit higher, but that's about right on the go forward. Still, we talk today, we think we have $2 billion of excess capital that's over the 400% RBC ratio measure as it is today. It will change at year-end. We still think that's the case. But obviously, as we're looking at rating agency models, to the extent they're making other adjustments, we're going to be focused on that. And I think over the next quarter or 2 or 3, we'll probably talk in terms of how we think about excess capital with respect to rating agency models and wherever that is, but we're kind of working that through right now along with others in the industry.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Second question is just whatever your GAAP operating income is going to be this year, it's going to be 1.2, 1.4, somewhere in that range or probably. How does your statutory income compare to that GAAP number, given you've got so much higher statutory income?

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

It's very strong. I think it is unusual for a company that's growing as rapidly as we are. But our in force is very profitable. I think it generates a lot of income. We made -- I'll give you an example, for last year, across all of our statutory entities, including Bermuda on an NAIC statutory basis, from a GAAP standpoint, we made $1.1 billion in operating income. I think, it was like $900 million from a stat standpoint.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Perfect. That's helpful. And then, last question is just maybe this is a little bit out of bounds for you, Marc, but I'll try it anyway.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I've been around a long time.

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Nothing is out of bounds for him.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

So management has laid out at least the potential that there's a significant enough opportunity for capital deployment, that maybe at some point down the road there is an equity raise. Apollo owns, I think, economically something in the range of 15%, 17%. Would you expect that Apollo would participate to sort of maintain that level of ownership?

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Look, our desire is to go up, not down. Will there be adjustments over time? Sure. But my own belief, I think, we're going to deploy this capital and then some. And our job is to deploy it at the highest rate of return possible, not knowing with certainty what's coming next, but to just raise the bar. And if the company needs support, we have a big balance sheet. We're happy to help.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Marty, I just want to circle back on the question I asked earlier. Just on the Voya accretion, I just want to understand where we're at and level set it. The portfolio repositioning on one of the slides shows an 80 basis point pickup -- 75, 80 basis point pickup from portfolio repositioning. On $18 billion, that would imply $140 million, granted that will probably run off to some degree over time. But you do the math, it's more than $200 million of accretion from Voya, assuming the initial accretion and the portfolio repositioning. The guidance is a lot lower. Can you help us bridge the gap? Is this a timing issue or are there are other big offsets here?

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

So that's just the -- you're right, that's the investment income piece. That's one line item, but then there's other line items. We're benefiting by higher interest rates, obviously, on the portfolio. That's part of why we have that kind of 80 basis points because we think the redeployment will benefit by the environment we're in now. We're seeing a little bit higher kind of cost of funds and [interest] credited on the Voya deal, and that's kind of in -- there's a little bit of an offset. And then there's other things like DAC conversation and writer reserve accretion that aren't part of that 80 basis point accretion, but those are other line item costs that we have, right? You heard us talk about rider reserves, so as we have the Voya block now, we're going to set aside some money to fund those rider reserves. We've got kind of [Aviva]. We're going to be amortizing that. So those are other costs that offset some of that. So what we said in the last quarter was, we think for next year, we'll incrementally $130 million of operating income, net of all those things, higher investment income, we've got a little bit higher liability costs and rider reserve accretion and all those things. And I think it goes to my reserve is like $160 million the year after. One thing to think of too is, Tom, that redeployment, we're far -- we're getting farther along that, but it really is going to go into next year, 1.5 years when we close. So next year doesn't feel the full effects of that redeployment. It feels a lot of it, but not all for it. So we'll feel the full effects of it kind of the year after that, in 2020. And then the other thing is the redeployment is a little bit back-loaded on the spread or the incremental yield because some of that comes in alts, and we're not necessarily finding them right this second. It takes the time to originate those with the quality and the earnings yield that we want. So as we're redeploying maybe $6 billion, $7 billion, some of the stuff that goes into alts, which is the biggest driver, is going to come a little bit later in the redeployment.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And then just a question on the new investment management structure. That 70 basis points of advisory fee that you paid for the highest alpha strategies, how was that calculated exactly? I assume that's an annual basis point charge just for the strategy, but then is there a clawback if it doesn't achieve a certain level of outperformance? Like how exactly is that calibrated?

James Richard Belardi - *Athene Holding Ltd. - Co-Founder, Chairman, CEO and CIO*

Well, it is based on what category each asset goes into. It's based on the projected net investment earn rate for each asset category. We haven't finalized perhaps any kind of clawback if there were defaults into a certain category, but I think, we'll come to the right answer there as well. You're not going to be paying -- Athene will pay 70 basis points for several years. Then there's a big impairment. it ends up there is no yield at all. So I think there would be an adjustment that we'll figure out that the with Apollo.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

This is a fluid process of trying to get to common sense. Jim touched on it a little bit, but I'll just give you a more granular example so that you can understand the issue. We went from individual bespoke pricing on every asset category, which was unworkable at scale. We then moved to 35 basis points on everything. That worked for a while, but it started to lead to silly outcomes. I'll give you 2 examples in the mortgage area. We generate first mortgages and second mortgages. First mortgages, we sell to third parties at 15 bps. We don't sell them to Athene because they're 35 bps and that's off-market. Athene goes to a sole provider, who has a fraction of the capability of Apollo and buys first mortgages at 15 bps. We sell second mortgages or mezzanine mortgages at 70 to 100 bps to third parties. We spend a lot of time making sure the portfolio manager is allocating as much as Athene is entitled to on a proportionate basis at 35 bps versus the 70 to 100. That became almost a full-time job of managing the silliness. And so while this structure is not perfect, this structure will at least try to align market-based pricing, apply a significant discount and get us out of this kind of silly allocation. My guess is, we will tweak this as we go forward because no doubt we did not get it fully right this time either, but this is a much better framework.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

It's Alex Scott from Goldman Sachs. I had a question just on some of the accounting changes that are occurring. And have you found that now that it's sort of a final rule that's going to be implemented and we have more clarity on that, are more counterparties looking at restructuring? Like is this a more near-term catalyst for the great restructuring that, I think, Bill was referring to?

Martin Philip Klein - *Athene Holding Ltd. - Executive VP & CFO*

I think this question came up in a little different form earlier and somebody threw me a lifeline. We didn't have a mic. So let me comment at least on part of that. This pretty new change just really happened this summer. And I think frankly, it's not -- it really permeated its way through how management seems to even think about it. What it is for the broader group, I think what you're referencing, there's really a couple of changes, one of which is effect today, I think, kind of a non-event, although it's a nice thing, is that, that amortization will be effectively more straight-line than it has been. So it would be easier to predict, certainly easier to execute. The thing that's more interesting is that writer reserve, the kind of living benefits that we talked about, the FASB change is effectively going to serve those market-to-market on balance sheets and in earnings through GAAP income and GAAP financials. So that's going to create more volatility. It also is going to mean that this is going to be a topic that people talk about more. When you're marking it to market, it also means you can't just look at market factors, where are interest rates and equities, for my rider reserve. You also have to look at are my assumptions right? So I think it's going to be even more pressure on companies to enter, all the firms you're going to look at and say, okay, we have to mark this to market. Now how good do we feel about their assumptions? You're supposed to have been doing that along the way. This would be an additional impetus to say, okay, we have to get this right, and the whole industry is doing this, so what do assumptions look like? We talked in a couple of different sessions today that we've seen these reserving practices all over the map with respect to assumptions. And this, I think, will force the issue. If companies don't get there before this is implemented, I think, the implementation of this will force the issue for many companies. For us, the underlying assumptions aren't really going to be a big deal. We're already making those as realistic and as up to date as we possibly can. The mark-to-market will have to deal with it. There's no real -- not really much true economic mark-to-market volatility for us in the way we manage our book and the way we manage our rider reserves. We'll have to think through the GAAP accounting and do some stuff in our non-op or op and so forth. But do I think it will create more focus on writer reserves and create more volatility and maybe create an impetus for some to say that this is a problem for me and maybe I don't want to be in this business? Yes, I think that it's quite possible.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I think you have to be very careful not to view that as the only catalyst. They are actually 2 things going on. We are a large long-term shareholder, and I always -- I joke sometimes that insurance companies die of 2 causes. One, they die of heart attacks and cancer. Heart attacks are asset risk. Liabilities are put on the books at high cost of funds. People need to take risk on the asset side. And when that doesn't work out, it goes bad very quickly. You can think back in history to the companies that have died very quickly. Cancer is harder to find. That is the slow buildup of liabilities that are put on the books at noneconomic costs to make current period earnings look better. So we're living through a decade of financial repression. It's been very difficult for management teams to show good earnings in an industry that is already challenged. One of the ways, I believe, people have showed better earnings than the otherwise would is they have taken a very liberal view of what their reserving costs are going to be. We see that because we look at reinsurance across the industry, we look at M&A across the industry and the scale of difference of our reserve versus the rest of the industry can be 2 and 3x. This is a big deal. In Aviva, bellwether in the insurance industry, we took a $1.4 billion charge. What that means is that Aviva's earnings for the prior 5 years didn't exist, and we're essentially wiped out by the charge. In Presidential, we took a charge. In almost every company that we look at, we take a charge. Now we know this because we're in this and we've been doing this for a really long time. In some of the M&A processes that we've seen come to market, I just don't know if people actually understand what they've bought from a reserving point of view. And I think the more this community pushes on this issue, the more it's going to accelerate. But I think we want to -- this is a bit of self-inoculation. We know this is coming. We want you to know that this is not a surprise to us, that we're prepared for it, we're marked to market. This is not for us long-term care or variable. We're ready. I think the industry is not ready. And I'll separate that from the broader trend. When you watch MetLife spin off Brighthouse, when you watch Axis spin off their U.S. business, when Generali sells their business, when Munich retests the market, when Aegon sells their business, when Manulife tests the market, you put all these things together. These are not isolated incidence. This is a wholesale repositioning of the insurance industry away from spread. They no longer believe they can earn spread. Why? Because spread is, like Bill said, it's 3 things. It's pretty simple business. It's asset yield, it's liability cost and it's G&A. G&A, they failed at. Asset yield, they've outsourced. The typical insurance company we buy, and this is our internal nomenclature, has 1,007 people. 1,000 people do everything associated with insurance, and there are 7 people in asset management, watching what PIMCO, BlackRock, Western and Doubleline are doing. You cannot earn asset alpha in a CUSIP market on a go-forward basis. When you've lost 2 of those levers and your liability costs are now coming under pressure, why are you in spread-based business? And I think we're seeing a wholesale repositioning, and now that these household names have decided it's okay to do this, I think we're going to see the whole industry turn over if they can't manage these 3 variables.

Colin R. Ducharme - *Sterling Capital Management LLC - Executive Director of Equity Opportunities & Senior Equity Analyst*

Colin Ducharme with Sterling Capital. Marc, I wanted to get back to the comment you talked about the #1 board conversation in terms of laying on "good" business versus hanging tight for potentially excellent business down the road. And I guess, the short version of my question is, is the current market's propensity to place premium multiples for visible growth affecting that discussion, i.e. increasing your willingness to put more good business on the books? And just to kind of further flush that question out, I know in Jim's circumstance, that's on America, a clear history of knowing exactly what the market pays for with that stock performance. In Apollo's case and other firms like it, there's a history there of the market's unwillingness to perhaps ever pay much for carry fee streams among other that are less visible. So I'm just curious what the approach here will be because you have 2 very different histories in a market environment which really values more metronomic growth as opposed to fat pitch, opportunistic growth.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Five different gradations of the answer but all generally focused around the same. So look, our background is we have waited for the fat pitch. If you look at Apollo's private equity track record, and this is not a private equity commercial, a huge part of the excess return has come 1993, summer of '87, 2001 to 2003, 2008 to 2010. Those were outstanding periods of time. Why? Market was stressed. No one else put money to work. We put massive amounts of capital to work. That's a 28-year story. We're used to this. The real question is, are all of you used to this? Look, I think the thing -- the answer is and that's why, I believe, in part our stock trades at a significant discount to where it should trade given its growth metrics and its opportunity. I think it's our job to convey the reality as we will be good, long-term stewards of capital. Jim opened his session by saying what we're interested in. We're interested in massive shareholder. We will not squander this. And that each of us has different gradations of it and that's fine.

William James Wheeler - *Athene Holding Ltd. - President*

But if I can just add to that. A direct answer to your question is none of the conversation has even mentioned near-term share price. It's all been about value creation.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Ryan Krueger, KBW. I had one for Marc.

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Between Marty and I, we're very popular, right?

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

I guess, can you comment on how significant Apollo's appetite is to continue to participate in things like the Voya transaction, where Apollo funds are taking on higher-risk liabilities in its structures?

Marc J. Rowan - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I'll jump at it. The answer is very significant. So if I were to characterize the market today, anything that is plain vanilla, we're watching copycats price. So we recently bid on a $5 billion block of business. We were 13 of 13. That tells you how we price. So let's not beat our heads against the wall. We know our returns have to be really, really high. We want a fat pitch. The only way you're putting money to work in size today is with complexity. So having closed the Voya transaction and having watched Voya be the best-performing financial stock this year, we are all really popular right now. We're being invited to all sorts of events we've never been invented before. People are being really nice to us because there's a great trade here. Companies can take an uncertain and unpredictable GAAP-destroying business and sell it to someone for the first time who's well capitalized, where they know they can get regulatory approval. And we're using that in the same way we approach Voya, which is this great -- this is great for Apollo and the investors in Venerable, and it's also great for Athene because they got to add not just liabilities. They got liabilities without cost through a big reinsurance trade rather than the complexity of buying a company and working all the people and the technology and the systems. So if we can do that again in variable, and I'm pretty confident we're going to do it again in variable, I think we're the only game in town for this right now. Not to say others will not try and figure it out, but there are 175 people at Apollo who do nothing but financial services. We model VA internally. We don't outsource to Milliman, PwC or any of the others. This is a decades-build that we've put in place to be able to do this. The same thing on long-term care. Long-term care at a price outside of Athene, I think, represents really interesting risk. Will the market allow us to transact at a price? I don't know. But on variable, I'm pretty convinced we're going to have a second trade.

Noah Gunn - *Athene Holding Ltd. - Head of Investor Relations*

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I think that's probably a good place to wrap for the day. I just want to take the opportunity, again, like Jim, to thank everybody for joining us. We all really appreciate your interest in the company. For those in the room, we have lunch next door available for you. And if you have any follow-up questions on any of the presentation material or what you've heard, you can feel free to follow up with me directly. Thanks, everyone.
