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Athene Holding Ltd. (ATH.PRA)

Investor Meeting - Fixed Income

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to Athene's Fixed Income Investor Update Conference Call and Webcast. All participant lines have been placed in a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

Jeanne Hess
Vice President-External Relations, Athene Holding Ltd.

Thanks, Mike, and welcome, everyone. We must remind you that today's call may include forward-looking statements and projections, which do not guarantee future events or performance. We do not undertake any duty to revise or update such statements to reflect new information and subsequent events or changes in strategy. Please refer to Athene and Apollo's most recent quarterly and annual reports and other SEC filings for a discussion of the factors that could cause actual results to differ materially from those expressed or implied.

We will be discussing certain non-GAAP measures on this call which we believe are relevant in assessing the financial performance of the business. And you'll find reconciliations of these metrics within our materials available at ir.athene.com. Additional information on the business and this quarter's results are available in the latest Fixed Income Investor Presentation posted this morning to Athene's Investor Relations website. There you will also find Athene's 10-Q filing and financial supplement.

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

Noah Gunn

Global Head of Investor Relations, Apollo Global Management, Inc.

Thanks, Jeanne. And welcome again, everyone. Athene's latest results were reported last week as part of Apollo's third quarter earnings release and ensure the business continues to outperform in the current environment and demonstrate its stellar credit worthiness. As many of you appreciate, Athene has historically been a regular issuer in the bond markets for senior debt and also sponsors of funding agreement back note program. We started hosting these quarterly calls earlier this year to ensure continued connectivity with our fixed income investors and to keep the markets apprised of current business trends.

We have received positive feedback and appreciate the time and attention you have committed to understanding our business. We have a fulsome update for you this morning. Jim is first going to provide commentary on the momentum in the business and investment activity. Grant will then take you through Athene's organic growth channels all which source persistent and attractive spread base funding. And then Marty will discuss Athene's record spread related fortress balance sheet and outlook for 2024. Following these remarks, we look forward to being helpful and fielding any of your questions.

With that, I will now turn it over to Jim.

James R. Belardi

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

Thanks, Noah, and good morning, everyone. The ongoing momentum in our business drove another quarter of outperformance out of Athene, continuing what will be a record year for the company on every front. We delivered record earnings for the quarter and expect to do so for the full year. In our retail business, we've already surpassed the record production from the full year of 2022 in the first nine months of 2023. Our flow reinsurance channel is also on track for a company record, mainly reflecting meaningful growth from our [ph] foreign (00:03:51) relationships in Japan. An expected 2023 total volumes of $60 billion will exceed the $48 billion generated in 2022, and our 2024 inflows will be even greater.

Fueling this progress is our purpose, providing retirement savings products to individuals and institutions, to help people meet their retirement needs and retire better. When I first started in this business decades ago, our country was already facing a retirement crisis. Unfortunately, it has only gotten worse. Corporations no longer take care of retirees, as evidenced by the shift away from defined benefit plans to defined contribution plans. People are living longer and do not have enough savings to provide lifetime security. Everyone is looking for guaranteed income and annuities are an increasingly popular solution. The ageing of the population, rising interest rates and market volatility are driving increasing demand for our products that we do not expect to slow down any time soon.

Annuities serve a fundamental need in retiree portfolios. They offer tremendous value centered around principal protection, favorable tax treatment and compelling guaranteed income, especially in a high rate environment. When interest rates rose dramatically off their historic lows, demand for our products soared. Retail annuities have been in such high demand that we have been calling this period the golden age of annuities. Not surprisingly, consumers prefer a 6% rate to a 2% rate, and annuities have been able to help them access these greater yields faster than other products.

We also have strong customer protections in place, including suitability checks and ensuring fees are consistent with the complexity of the advice provided and there are no hidden fees. Importantly, we can meet the elevated demand in the market because we have the capital resources to support it. Athene is exceedingly well capitalized with $21 billion of regulatory capital and $2.6 billion of excess capital.

In our third quarter fixed income presentation, we included a page that illustrates our credit ratings and scale in comparison to others in the industry. It is noteworthy that Athene is now the largest A-plus rated company in retirement services but interestingly, the amount of excess capital we hold exceeds the AA level and we are committed to further improvement in our ratings profile.

We are pleased with the increasing recognition we have received from the rating agencies over time, having gone from unrated at our founding in 2009 to BBB+ in 2013, A- in 2014, A in 2017 and A+ at the time of the 2021 merger announcement. Maintaining strong credit ratings is extremely important to our business and we are very proud of our long-term track record of consistent ratings improvement.

Another important fact we regularly reinforce with the rating agencies is that our $261 billion investment portfolio is high quality and well diversified. In terms of credit quality, 97% of our available for sale fixed maturity securities are investment grade, designated NAIC 1 or 2, in line with the industry.

Given this, it is particularly noteworthy that Athene has experienced fewer impairments than the industry.

Over the trailing five-year period through 2022, Athene's annualized impairments of 9 basis points compare favorably to the industry average of 14 basis points. Interestingly, over time, we've observed that the credit losses we experienced have been disproportionately concentrated in investment grade corporate bonds purchased in the market versus private investment grade credit originated by Apollo, underscoring our confidence in the quality of our originated credits and focus on investment grade private credit. To reiterate how we manage the portfolio, we are focused on the vast majority of Athene's portfolio being invested in high-grade, senior secured, top of the capital structure fixed-income assets.

When managing Athene's asset portfolio, our investment philosophy is to generate alpha through illiquidity and structuring premia, not incremental credit risk. We continue to put money to work in the asset classes where we see the best opportunity to generate returns for policyholders. We outperform on asset yields while having lower impairments, which is a very powerful combination in our business. We have deployed nearly $36 billion year-to-date on a gross basis.

Consistent with recent quarters, our third quarter purchase activity fell into three categories. First, we source mortgage loans, primarily residential, which accounted for approximately 40% of our purchases as we continue to see very strong relative value and absolute yield with comparably high credit rate quality in this asset class. In our commercial real estate portfolio, as a reminder, we own almost no equity. Second, we found value in public and private corporate bonds, which accounted for approximately 30% of our purchases. And third, we found attractive opportunities in structured securities like CLOs and asset-backed securities, which accounted for roughly 15% of our purchases.

As a reminder, Athene focuses on the senior investment grade tranches of these securities, which benefit from significant credit enhancement and enable us to pick up a substantial amount of incremental yield at a similarly high ratings profile compared to our corporate purchases. Importantly, the 99% of our CLOs and approximately 95% of our asset backs are investment grade.

In summary, even with our success to date, we see vast opportunity in the marketplace as we continue to serve a growing and increasingly unprepared retirement population. We look forward to wrapping up another record year for the company and are energized for the year ahead.

With that, I'd like to turn the call over to Grant for an overview of our business channels.

Grant Kvalheim

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

Thanks, Jim. Good morning, everyone. Athene once again generated strong organic growth in the quarter with nearly $13 billion of inflows. Our products continue to be in high demand as we provide a useful solution within retirees portfolios. Our diversified sourcing capabilities provide the flexibility to pivot across products and channels to maintain strong profitability. All of our channels source high-quality, spread-based funding. Where we ultimately grow in a given period depends on which channels offer attractive net spread aligned with targeted returns.

Turning to the highlights from across our channels. In retail, inflows remained strong at $6.5 billion in the third quarter, with year-to-date volumes already exceeding record volumes in 2022. Athene maintained its number one rank in total US annuity sales based on latest available data. Demand for retail annuities is very strong with $2.5 billion issued in October and where we experienced growing momentum throughout the month, signaling a strong end to the year.

Importantly, our distribution continues to expand as we make further inroads with financial institutions. 72% of retail inflows year-to-date are from banks and broker dealers, and we are continuing to see an increasing mix shift towards financial institutions.

Athene launched on the JPMorgan Chase platform in early August, and we are very pleased with the initial reception. Third quarter sales were strong, especially for new entrants, and we received positive feedback on our operational excellence and the ease of doing business with us. Further expanding our distribution remains a key priority, and we anticipate adding multiple partnerships in 2024. We are also adding new product offering at existing distributors on a periodic basis.

Based on our initial analysis, the recently proposed DLO rule appears to be similar in nature to the 2016 proposal. We will continue to monitor the process pending a final outcome. We expect the primary impact to be on annuity sales from qualified accounts in the IMO channel. This represents 10% of year-to-date inflows. Athene and other insurers prepare to comply with fiduciary rule that was proposed seven years ago, and we believe we will be ready for this change when it passes.

Regardless of change in the regulatory landscape, we believe annuities will continue to be valued by those preparing for retirement and that the features and protections provided by these products will continue to be an important tool in retirement planning.

Turning to flow reinsurance. We generated another quarterly record with inflows of $3.2 billion and $7.7 billion year to date, as treaties executed in Japan and the US earlier this year continue to generate meaningful contributions. Sales in Japan were particularly strong, and we benefited from the first full quarter of sales with a new US counterparty. Continue to expect that flow reinsurance volumes will exceed $10 million in 2023, a new annual record.

In our pension group annuity business, while the third quarter was quiet, we executed a $1.3 billion solution in October as we continue to partner with plan sponsors and keep benefits secure for individuals and institutions. Since the inception of our PGA business in 2017, we have now written $50 billion in US premiums and assisted several blue-chip clients, a significant achievement. We continue to have line of sight into several sizeable opportunities, and we expect them to come to market through mid-2024.

Turning to our funding agreement channel, inflows increased sequentially to $3.2 billion. Activity was driven by three FHLB issuances totaling $2 billion, one FABR of $1 billion and one Singapore dollar (sic) [$220 million]-denominated funding agreement backed note equivalent to $220 million.

Consistent with our pricing discipline, there were no FABN issuances in US. As we continue to observe, there are secondary market spreads are too wide visibility issued by comparable A1/A+ companies. That said, our spreads have improved meaningfully over the course of the year, but there is more work to be done that can be seen clearly on slide 13 of the presentation.

We look forward to reengaging if market conditions allow. Putting it all together, we remain on track to deliver $60 billion plus of inflows in 2023 and with momentum across channels, we foresee the ability to generate at least $70 billion of inflows in 2024.

With that, I'll turn the call over to Marty Klein for a detailed discussion of our financial results.

Martin P. Klein

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

Thanks, Grant, and good morning, everybody. As you heard so far this morning, our business has delivered record retail and flow reinsurance inflows and record spread-related earnings. The vast majority of our investment portfolio is investment-grade, credit quality remains very high, leverage is modestly below target levels and we have ample access to capital.

Said in other way, Athene's financial profile is stellar. Importantly as others in the industry grapple with legacy issues, Athene is one of the few with no exposure to products such as long-term care or universal life with secondary guarantees, which can have significant tail risk from biometric impacts.

Another key differentiator for Athene is the strength of our funding model, which is comprised of spread-based retirement savings products with relatively long durations. These long-dated liabilities are inherently very predictable due to their structural protections and long observable history of consistent consumer behavior. Buyers of Athene's annuity products consider them a retirement planning tool. The value principal protection, tax deferred growth and avoid paying fees like surrender charges or market value adjustments, also known as MVAMVAs, a provision while in their surrender charge period. If corporate yields are higher at the time of withdrawal when the annuity was purchased, the MVA increases the surrender charge further disincentivizing policyholder to surrender.

This consistency of customer behavior and liability stickiness was evident in the third quarter. As expected, Athene's annualized core outflow rate decreased sequentially and 13% was close to but below the 14.4% rate that we had previously forecasted. We continue to expect that the core outflow rate will decline slightly in the fourth quarter as we experience fewer maturity driven contractual outflows.

Turning to capital. Excess capital remains robust and reflects the sizable benefit from Apollo's August offering. The higher projecting excess capital, combined with third-party capital from ACRA sidecars will allow us to source more than $20 billion of additional volumes, further boosting both SRE and FRE while maintaining a fortress balance sheet.

On ACRA sidecars helped preserve Athene's strong capital position and enhance Athene's return on retained business. On July 1, the second vintage of our sidecar strategy, ADIP II purchased 50% of ACRA 2's economic interests, resulting in approximately $6.8 billion of inflows attributable to Athene for the first six months of 2023, being retroactively attributed to ADIP II through their equity stake and providing over $600 million of incremental capital to support future growth.

Athene's total deployable capital was $8.4 billion at September 30. This is comprised of excess capital, untapped debt capacity of approximately $4 billion, and $1.8 billion of available undrawn third-party capital within our ACRA sidecars. Available liquidity, including cash and equivalents, our liquid volume portfolio, committed repo lines, a traditional holding company credit facility as well as the liquidity facility plus untapped capacity at the FHLB totaled approximately $74 billion.

Athene's balance sheet metrics continued to compare favorably with an adjusted debt to capital ratio of 13.3%, well below the 27.7% of AA and A rated insurers. Maintaining our target leverage profile as we continue to prudently grow our balance sheet is a key priority.

In order to reflect the strong quarter and ongoing momentum, we reiterate the following go-forward expectations. For the full year of 2023, we continue to expect a normalized SRE growth rate that exceeds 30%, reflecting the lower outflow rate, the proportion of split even flows between Athene and ACRA 2 and normalized net spread of approximately 165 basis points in the fourth quarter.

In 2024, we continue to expect low double-digit normalized SRE growth after adjusting for the ACRA 2 buy-down and the venerable recapture. Inflows across channels of at least $70 billion to be funded with existing capital and third-party capital from our sidecars and normalized SRE spread of approximately 165 basis points, assuming the current forward rate curve.

As a reminder, higher rates benefit our floating rate assets and achievable return on our underlying capital. Athene supports organic inflows with approximately 8% to 10% of capital which we invest alongside the dollar with cash taken in from policyholders. While Athene continue to underwrite yield inflows to target of around 115 basis points or better at the product level, on-the-margin SRE spread is much higher in the current environment closer to 170 basis points year-to-date.

In closing, we're very pleased with the results we've delivered year-to-date and the bright outlook for our business. As we approach the end of the year and the beginning of 2024, we are focused on profitably growing our business, maintaining our fortress balance sheet and generating immediate returns for our stakeholders.

Thanks for your time today and we'll now turn the call over to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we have our first question from Patrick Davitt with Autonomous Research.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Hi. Good morning. Thanks. Could you update us on the potential to get more annuities into tax advantaged retirement plans? It feels like there's some chatter of demand increasing there. So are you seeing more discussions about getting Athene annuities into those plans? Thank you.

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

A

Grant?

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

A

Yeah. Thanks, Jim. So obviously, with the Secure 2.0, it allowed annuities to go into defined contribution plans. We have partnered with Annexus on a product called Lifetime Income Builder, which we think it is a unique solution for doing that. It's early days, I think for us and others. So I think the talk about the opportunity still greatly exceeds anything that's manifested yet, but it's something that we continue to work on.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Thank you.

Operator: [Operator Instructions] And our next question comes from Ben Budish with Barclays.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning and thanks for taking the question. I just wanted to ask on the core outflows, it looks like some of the pieces came in a little bit differently than expected. And overall, the total number came in a little bit under your expectations. Do you think those trends are sort of what continues into the next couple of quarters and any other kind of granularity into the contractual driven versus policy-driven outflows. Just what sort of diverge from your initial expectations? Thank you.

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

A

Marty?

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

A

Yeah. Thanks for the question. We don't really see a big change from what we put out as our forecast I think a couple of quarters to go. Obviously, it's hard to very – extremely precisely with a few point figure estimated. But, we're very close and basically our outflows are very much in line with our expectations, quarter-to-quarter and over the course of the year.

So, yeah, inflows were a little bit – our outflows let's say, were a little bit below we forecast. But that's not too surprising, frankly. And I think the trend that we see is that they're going to continue to slightly decrease over the next couple of quarters. I think part of that is because of the MYGA or multi-year guarantee annuity business that we write, which has three or five-year stronger charge periods. It's very easy to predict that once they hit that basically – those policies will basically leave and go into new annuities, often with Athene and sometimes sort of carriers. And so, we know when we write that product that five years later, it's highly likely to last close to 90% or 95% certainty. And so, that's what makes that very predictable quarter-to-quarter.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Got it. Thanks for the clarification there.

Operator: [Operator Instructions] And we have our next question from Patrick Davitt with Autonomous Research.

Patrick Davitt
Analyst, Autonomous Research US LP
Q

Yeah. Thanks for the follow-up. So, away from the fiduciary role, there's also chatter of DOL looking into PRT fiduciary standards with a particular eye to the PE type firms. So, firstly, do you have any update and/or thoughts on when their thinking is going? And secondly, are you seeing this impact on PRT discussions at all, either positively or negatively? In other words, could we see a surge of deals to get in before the DOL changes the rules? Or are you seeing more of a pause to wait and see what they say? Thank you.

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

We're not seeing any current impact. The DOL was mandated by legislation to review the current standards and there's been a lot of discussion we provided testimony, as did others. We'll have to wait and see what they come out with. But, we don't see any reason why there should be different rules that apply to some participants in the market versus others. So, we will wait and see.

Patrick Davitt
Analyst, Autonomous Research US LP
Q

Thanks. And If I could throw a quick follow-up then, you mentioned the FABN spreads getting better, could you frame maybe how much volume or how much pickup in volume you think you could see if that spread closes the gap with the comps you put there completely?

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

I guess [indiscernible] (00:28:08) since we've done zero since March of last year, it's a function of market dynamics, right? We have over $20 billion outstanding. In one year, we get more than $11 billion. More generally, we were doing smaller volumes than that. But we'll just have to see. I mean, the answer in the near-term is zero and that we see better spread performance.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Thank you.

Operator: [Operator Instructions] And we have our next question from Joseph Di Carlo with MetLife Investment Management.

Joseph Di Carlo
Analyst, MetLife Investment Management

Q

Hey, guys. Good morning. I just had a question, I guess on the back of the spread performance, when you guys are trying to cap that market, kind of like what's good relative value that you see between maybe holding company-issued debt and the savings. I know it's a totally different product. And then, a follow-up question would be related to specifically leverage. So, you have a – your adjusted debt to total capital ratio is extremely low versus peers and you cite that as a credit strength which clearly it is. What kind of options would make you or what type of events could you see where you would take that up to maybe 20% or something or would that not ever be in the cards? Thanks.

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

A

Thanks for the question. On the first part of your question, on senior debt or [indiscernible] (00:30:01), yes, they are very different products and for Athene, and I think it is true for the industry [indiscernible] (00:30:07) for totally different purposes. If we would issue the senior debt or preferred or whatever, it's generally the HoldCo to help fund our growth opportunities for general corporate purposes. But in our case it's almost entirely to fund our growth along with the excess capital that we have, the earnings that are generated from our business and using our ACRA sidecar.

And so, as we look at good times to issue debt, it's a function not just of interest rates, but also our debt spreads are. Obviously, the funding agreement [indiscernible] (00:30:42) product is used for very different purposes, that's one of our organic channels just like annuities, retail annuities or flow annuities or PGA. And there it's not the level of rate so much, it's really what's the spread that we issue at versus what's the spread that we can earn and what does this look like.

So very different products used for very different purposes that is used to fund our growth and patterns are part of the channels actually part of our growth. We have always maintained pretty modest financial leverage kind of mid-teens. In fact, few years ago, we had no debt, four, five, six years ago. For the medium-term, we expect actually over the next several years to maintain that kind of close to 15% debt to capital ratio.

[ph] What we guided (00:31:37) 20%, we consider it – I think that would be in circumstance where we found an extremely attractive growth opportunity for some large inorganic transaction, where along with our sidecar and ACRA and other funding vehicles that might have we would consider increasing our leverage to 20%. But I think that will be highly unusual event and there is certainly nothing on the horizon in the near- to medium-term that we would see that would warrant such a situation. So, we expect to be in the kind of mid-teens ballpark in the next couple of years, if not longer.

Joseph Di Carlo
Analyst, MetLife Investment Management

Q

Got it. And then just a follow-up and this is all sort of piggyback on the other question. Like, what do you think your opportunity is to bring this spreads in on the savings products? Like, what kind of outreach do you have to do or like how are you thinking about that?

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

I think it's all a very big part of that. We've certainly seen spread improvement over the course of this year. We participate in a number of fixed income conferences and FABN conferences, we received inbound calls for updates, which we take as long as we're not at the blackout period. So, I think we feel like we're doing what we needed to do. But if you've got any suggestions of other things that we ought to be doing, we are all interested. I would just also add that we are the industry-leading with respect to disclosure. So, not only we have again quarterly fixed income calls along with the quarterly earnings calls, we also have abundance of materials available on our website on a variety of topics that investors ask about was going from mortgages or our capital structure or surrenders. So, we're also trying to make sure that investors have a tremendous amount of material to educate them on our business.

Joseph Di Carlo Q
Analyst, MetLife Investment Management

Got it. That's helpful. Thank you. And I'll be back with some feedback for you guys for sure.

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

Great. Appreciate it.

Operator: And our next question comes from Matt Healey with Fidelity.

Matthew Healey Q
Analyst, Fidelity Management & Research Co. LLC

Hey. Thanks for taking my call. Can you hear me okay?

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

Yeah. We can.

Matthew Healey Q
Analyst, Fidelity Management & Research Co. LLC

Great. Would you mind running through some of the alternative positions in AAA and just highlighting any that you think are a little bit more sensitive to the level of rates or maybe building potential credit losses, like is foundation home loans – is that – has business slowed down a lot there? Could you talk about – just highlight which positions might be more sensitive to the rate environment.

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

Yeah. Thanks for the question, Matt. So first of all, the portfolio stands at $14 billion today. $10 billion was the original contribution from Athene's original alternatives portfolio that we contributed. And then we've brought in third-party capital for the rest. Of that $14 billion, about 43% is at what we call private direct investments, which includes the equity in platforms. About a quarter of the portfolio is in real assets; private equity is 15%; hybrid equities, 4%; credit is about 8%.

We feel good about the portfolio. It follows our philosophy for this portfolio, which is essentially to have a lower volatility portfolio, a portfolio that would underperform when the public equity markets are robust and outperform in flat to down public equity markets, which [ph] our alts portfolio has (00:35:45) done pretty consistently over the 14.5 years of Athene.

So it's – I don't have any particular name that we're particularly worried about. You heard me describe the asset categories. But we continue to bring in third-party money to grow the portfolio. The benefit to Athene there is we can leverage this portfolio more with third-party money. Just as a general comment, third-party money and capital in the form of our two sidecars is a huge positive for us. It has allowed us to grow the way we have been growing, but it's also our philosophy here in this asset class. So new capital calls. Instead of funding 100%, we're funding roughly 10/14ths of it now, 5/7s. So 75%, 80%. And I think eventually, over time, I think the idea would be maybe get to 50/50. But no particular sector to call out that we're particularly worried about, but I hope that helps.

Matthew Healey Q
Analyst, Fidelity Management & Research Co. LLC

Yeah, it does. Thanks very much. You mentioned, I think, explicitly that you're committed to improving the credit profile of Athene. And so what specifically do you think is left to do? You've had good success already and getting credit rating agencies to recognize the strength of the platform. Where does future improvement come?

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

Well, I think invest – fixed income investors recognizing just what you talked about and our high-quality asset portfolio, our lower impairments, our consistently growing earnings, all credit positives. There's really no reason why our funding agreement-backed notes trade wider than others with the same rating. And so, it's...

Matthew Healey Q
Analyst, Fidelity Management & Research Co. LLC

No. I mean...

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

Yeah. Sorry. Go ahead.

Matthew Healey Q
Analyst, Fidelity Management & Research Co. LLC

Yeah. No. So I mean, are there levers that you're going to pull? Is there a specific – like if you're trying to – I guess what you're just saying is you're committed to improving your credit profile as measured by funding spreads. Is that how I should be thinking about that statement?

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

Yeah. Look, I think we're doing all the right things, excess capital, excess liquidity, all recognized by the rating agencies by our consistent ratings improvement. We're running the company to AA standard. So hopefully, there'll be additional ratings improvement for our core business, but now it's about getting fixed income investors to recognize that as Grant said, partly by these calls, blocking and tackling. I mean, it's – we're not going to change our business profile because I think it's working beyond anyone's expectations and it's – just consistently executing is, I think, the right way to do it and having called and educating and hopefully, we get the recognition that we deserve and tighter spreads.

Matthew Healey
Analyst, Fidelity Management & Research Co. LLC

Q

Yeah.

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

A

I would just certainly add – I would just add, Matt, that we are seeking over time to get additional [ph] operating upgrades as (00:39:03) we can. We certainly, as Jim said, don't anticipate any changes to our business model. But we would like to get to the double AA minus category, and we certainly think that's achievable over time if we continue to deliver executing the strategy that we have and perform as well as we have over time.

I think that one of the holdbacks that we had a few years ago and we're making headway there is [ph] what they're ready to do is (00:39:29) diversification, but with their expansion into the pension group annuity market and then the further expansion we've had into other regions of the world, such as in Japan, we're getting a lot more geographic and product distribution than we had previously. And I think we're – rating agencies are observing that. But yeah, we'd like to get – not only do we one driver spreads down, as Jim said, but we would like over time to go [indiscernible] (00:39:56).

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

A

[ph] Yeah, maybe I'll add a little bit to that (00:39:59). Geographic diversification is one that for some of the agencies is a big deal, and we'll be well north of 10% of origination volume this year outside the US from what, a couple of years ago, was [ph] 0% (00:40:16).

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

A

Yeah, I would just – one final thing, not to beat this to death, but in the presentation, I mentioned in my comments, we have a page in there comparing us to [ph] like rated companies and metrics we have on their (00:40:28) market cap. I mean the only company that's listed there as a higher market cap through KKR is Global Atlantic, but our market cap at Apollo is bigger [indiscernible] (00:40:40) bigger than the household names. And so size is certainly a credit positive.

We have that. Consistent earnings are credit positive. We have that. Market cap is a positive. We have that. So there's really no box that we don't check in a credit profile. So that's why it's frustrating that our spreads [ph] are (00:41:03) tighter than they are or at least as tight as other comparably rated companies. So we're dead set with purpose on achieving this and continuing to make progress and early returns from these calls have been very good.

Matthew Healey
Analyst, Fidelity Management & Research Co. LLC

Q

Yeah. All right. Well, that – the second half of those answers was really excellent. That's exactly what I was looking for. I appreciate that. If I could just fit one more in.

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

A

Sure.

Matthew Healey
Analyst, Fidelity Management & Research Co. LLC

Q

Any tweaks to the – well, [indiscernible] (00:41:33) any tweaks to the stress test? I know you have a link in the deck to the stress – to the latest sort of stress test. Have there been any tweaks to the stress test recently in what you've looked to apply?

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

A

No, I would – it's – stress test, yeah, we – I think we disclose it annually, if not more frequently, but it's something we do every single quarter as part of our management review and something we review at length with our board risk committee. I think in the last year, we've included an additional stress scenario, which is the stagflation scenario, adding to the kind of typical recession scenario and the Great Financial Crisis, Lehman Brothers type of scenario that we had previously.

So that stress testing we do very frequently that we disclosed. We also do a liquidity stress testing. And obviously, we also look at cash flow testing every single quarter for all of our legal entities. So lots of analysis and testing that we do on a quarterly basis. But I wouldn't say anything new than over the last year.

Matthew Healey
Analyst, Fidelity Management & Research Co. LLC

Q

Okay. Great. Thanks very much. That's it from me.

Operator: And we have our next question from Aileen Barbiellini with Longfellow Investment Management.

Aileen Barbiellini Amidei
Analyst, Longfellow Investment Management Co. LLC

Q

Hi. Good morning. Thanks for this call. Appreciate it. So I've got two questions. One would be just getting some insight on your CLO holdings. What are you seeing there in terms of any credit deterioration or normalization? Just trying to figure out how that portfolio is performing.

And my second question would be, I think, just dovetailing to the questions about spreads andyou're your spreads have performed or get stuck kind of like wider than peers. Maybe my question is when you are talking to fixed income investors, what are you hearing? I mean, obviously, we are the ones driving the spreads. What is the feedback that you're hearing from investors?

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

A

I'll take the first part and then Grant will take the second part. We're very happy with our CLO portfolio. I don't know if everybody on the call remembers, but right in the middle of COVID in 2020, we were the first company to come out proactively with a conference call talking about our structured asset portfolio.

And we emphasize at that time and emphasize it in spades now that even in a repeat of the Lehman crisis, we didn't expect any losses in our CLO portfolio. Because of the diversification, subordination, structural protections, diverting of cash flows to large tranches, et cetera. And we would say that again right now, so very happy with it.

We continue to find value on the margin. I mean, we just added some double A CLOs not too recently. And so up in credit quality, continues to perform well, judicious with what we buy. But I think it's in really solid shape.

Grant, do you want to take the second part?

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

A

Yeah. Thanks, Aileen. So, not a lot is the short answer. I think to the extent people point to things they point to the fact that we issued $11 billion in 2021. I will say while we were doing that, we were issuing large liquid deals that were oversubscribed. And throughout that year, our spreads were outperforming both the corporate bond index and the index of FAB and our spreads and widened in an environment where we're not issuing. My analysis of why that's the case is, we did seem to be a higher [indiscernible] (00:45:42) name, something we don't want to be in market, in credit market that are less positive, either risk neutral or risk-off, our spreads underperform and in markets where it is withdrawn [indiscernible] (00:45:56).

We don't like that. We don't see where spreads should perform materially different than peers given what we've talked about in terms of our credit profile, our credit metrics and our operating performance. So, I'm not stating it's something that we desire at this stage, something that today is what we've observed.

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

A

Yeah. The only other thing I'd add on the CLO portfolio, it's a little over 10% of our invested assets, which has consistently been in the case over time. Thanks.

Aileen Barbiellini Amidei
Analyst, Longfellow Investment Management Co. LLC

Q

Thanks, guys.

Operator: And we have our next question from Ben Budish with Barclays.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Hi there. Thanks for taking the follow-up. I kind of following up on the prior question or maybe two questions ago just in terms of the potential for a ratings upgrade. We talked a lot about the spreads that you're seeing, but can you talk about what other opportunities that may unlock? Where can you sort of, I don't know, grow faster or be able to price more effectively? How should we think about the opportunity if and when you were to receive that upgrade? Thanks.

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

I think the upgrade is kind of be beneficial in all of our businesses, right, in our flow reinsurance business, in the issuance business and the issuance of public securities [indiscernible] (00:47:18) contemplate inorganic transactions, right? So, in flow inorganic, it's about counterparty [indiscernible] (00:47:24). It's what we do in banks and financial institutions. They also think about exposure to us as they mature within their systems. So, it's really beneficial to all aspects of our business. I don't know that I can quantify, I mean it's pretty hard to grow any faster than when we're growing. We've grown 20x in origination in the last decade, right. So, issued $2.9 billion organically in 2014 and it'll be $60 billion plus this year. But it does qualify us to grow faster. We'll have to see how we capitalize on that. I think it will take us a bit of time to convince the agencies to double, remind us. So I don't think anyone should expect that that's a near-term event.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Got it. That's helpful. Thank you very much.

Operator: [Operator Instructions] And our next question comes from Brennan Hawken with UBS.

Brennan Hawken
Analyst, UBS Securities LLC
Q

Good morning. Thanks for taking my question. I wanted to ask a follow-up on the point around the deal of fiduciary rule. So, 10% coming from the IMO channel. I assume that that's on new business. So want to confirm that.

First part, could you compare how that has changed versus, maybe five or six years ago? Has that allocation come down? And then what makes up the other 90%? Could you maybe give a general breakdown of the sales and which channels they come from?

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

Sure. So, the 10% is against all of our originations, not just retail. But the percentage of qualified versus non-qualified money hasn't really changed at all over time. What has changed is that if you go back six, seven years ago, 100% of our retail annuity sales were through IMOs. And so far this year, 28% of our retail annuity sales are through IMOs. And to be clear, we don't feel that any rule adopted, whatever it looks like, puts qualified sales through IMOs at risk. The demand for the products will still be there. It will just require some changes as to how that happen and there is also the similar – it's roughly half. It's more than half of our sales or qualified money in total in the retail business when it goes through banks, broker dealers, IMOs.

But banks or broker dealers will just be better situated to deal with it, right. Today, most of our sales through banks and broker dealers, we delegate suitability to those institutions. IMOs do not typically have a complaint struck sugar within the IMO, so the adoption of this rule would require changes. If those changes can and would be made and they were certainly contemplated when the rule was proposed seven years ago.

So, [indiscernible] (00:50:33) 10%, it's not to imply in any way, shape or form that we think those sales will be at risk. It will just require a different methodology to complete suitability and have those be effective sales through IMOs.

Brennan Hawken
Analyst, UBS Securities LLC

Q

Sure. I totally appreciate that. I'm just trying to get a sense and, of course, this is all a question about behavioral change. Nobody knows what the answer is to that question. I'm just trying to get a sense of how the qualified sales breakdown by channel for the rest of the book away from the IMOs?

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

A

So, Athene's retail can be about $30 million this year, qualified sales are more than half and IMOs are 28% – you can do math. IMOs are 28% and the qualified – the money going through banks and BDs, which is highly confident they can adapt to the change. So, I'm not telling you, this role is a non-event and it's telling you, we planned for seven years ago.

The rule fundamentally does not look a whole lot different than the rule of seven years ago, which ultimately was struck down through litigation. And I would guess, this rule will also be litigated. So real long way delay from the adoption of a final rule on this. Highly confident, whatever form, of final rule takes, the industry will be able to adapt, and I think it will ultimately have zero impact on industry sale.

Brennan Hawken
Analyst, UBS Securities LLC

Q

Sure. Appreciate that.

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

A

And so demand for the product is there. Fundamental demand and need for retirees to source principal protection and guaranteed income. What other ways can you, as an individual, buy longevity protection?

Brennan Hawken
Analyst, UBS Securities LLC

Q

As soon that was rhetorical, but thanks for taking my question.

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

A

Okay.

Operator: And we've reached our allotted time for our questions today. I would like to now turn the call back over to Jeanne Hess for closing remarks.

Jeanne Hess
Vice President-External Relations, Athene Holding Ltd.

Thanks, Mike, and thanks, everyone, for joining us this morning. If you have any follow-up calls regarding anything discussed on today's call, please don't hesitate to reach out to us.

Operator: Thank you. This does conclude today's program. Thank you for your participation. You may now disconnect.