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Athene Holding (ATH)

Q1 Earnings Call

Corporate Participants

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Chairman, CEO and Chief Investment Officer, Athene Holding

William Wheeler
President, Athene Holding

Martin Klein
Chief Financial Officer, Athene Holding

Noah Gunn
Head of Investor Relations, Athene Holding

Other Participants

Ryan Krueger
Analyst, KBW

Humphrey Lee
Analyst, Dowling & Partners

Andrew Kligerman
Analyst, Credit Suisse

Elyse Greenspan
Analyst, Wells Fargo

Suneet Kamath
Analyst, Citi

John Barnidge
Analyst, Piper Sandler

Mike Ward
Analyst, UBS

Tracy Benguigui
Analyst, Barclays

Eric Bass
Analyst, Autonomous

ATHENE HOLDING LTD.
Q1 2021 Earnings Call
Moderator: Noah Gunn, Head of Investor Relations
May 7, 2021
10:00 AM ET

Operator:
Good morning. My name is Samantha, and I will be your conference operator today. At this time, I would like to welcome everyone to the Athene First Quarter 2021 Earnings Conference Call and Webcast. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question at that time, please press star 1 on your telephone keypad. If you should need operator assistance, please press star 0. Thank you. I will now turn the call over to Noah Gunn, Head of Investor Relations. Please go ahead.

Noah Gunn, Head of Investor Relations:
Thanks, Samantha, and welcome, everyone, to our first quarter 2021 earnings call.

Joining me this morning are Jim Belardi, Chairman and CEO; Bill Wheeler, President; and Marty Klein, our Chief Financial Officer.

Earlier this morning, we issued a press release, slide presentation and financial supplement, which are available on our website. In addition, a preliminary joint proxy statement and prospectus was filed yesterday in connection with our previously announced merger transaction with Apollo. Our investor relations websites contain important information, that is and will be available to investors relating to the proposed merger and the interest of our directors, officers and employees who may participate in the solicitation of proxies from shareholders.

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

We will be discussing certain non-GAAP measures on this call, which we believe are relevant in assessing the financial performance of the business. And you'll find reconciliations of these metrics within our earnings materials available at ir.athene.com.

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

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Okay. Thanks, Noah, and good morning, everyone. Thank you for joining us and for your continued interest in Athene.

We are incredibly pleased with our first quarter results, which showcase the power of our spread-based business model, and the very strong levels of profitability it can produce.

As many of you are aware, approximately two months ago, we announced a merger transaction with our long-standing strategic partner, Apollo. Before discussing our business achievements during the first quarter, I'd like to take a moment to explain why I'm extremely excited about our prospects for accelerating growth and continued success as a combined entity.

By now, it's fairly well understood that Athene has grown into the preeminent platform in the retirement services industry, with a market leadership position across all of our organic and inorganic business channels. We have generated record levels of growth, underwritten to very strong returns. And I could not be prouder of our team for their incredible efforts in executing our strategy over more than a decade, and particularly over the past year.

At the same time, it is important to recognize that Athene's ability to achieve long-term success has been built upon a foundation of best-in-class asset management capabilities, coupled with strategic guidance and significant resources, all of which Apollo has provided since our founding. While we have been aligned as partners for more than a decade, we expect that moving to a fully aligned model will carry many strategic benefits and help unlock Athene's value potential.

Our merger with Apollo will create one large-scale financial juggernaut, that is stronger and more creditworthy on a combined basis, thereby improving our ability to pursue continued profitable growth, while remaining a source of strength for the individuals and institutions that we serve.

Importantly, we remain cognizant of the significance of our role in the broader financial ecosystem. We serve hundreds of thousands of individual retirees as well as many institutions and their constituents. Since Athene's founding, we have not wavered in our commitment to delivering greater financial security to policyholders and helping our partners to manage long-term liabilities, and that will not change. We are more confident than ever that the path forward offered by this transaction is the natural, appropriate and logical next step for Athene's business.

We are hopeful that you, our shareholders, can share our level of excitement and belief in the benefits of this transaction and will offer your support in the upcoming voting process.

Turning to our very strong first quarter results. We demonstrated superb execution on both sides of the balance sheet, with strong organic growth and asset outperformance combining to drive record profitability.

Athene generated $8.2 billion of growth -- gross organic inflows, marking our second highest quarterly total ever. This result reflects the significant scale that we have built across each of our diversified funding channels as well as the continued strength of our balance sheet to support new business growth. Taken together, these two factors allowed us to be opportunistic in our approach to liability sourcing amid competitive market dynamics, while maintaining pricing discipline to achieve our target returns.

Our record quarterly adjusted operating income, driven by particularly strong alternative investment income, which I'll discuss in a moment, drove Athene's adjusted book value to nearly $63 per share. This result continues a consistent upward climb of 16% per year since our inception 12 years ago, three times the industry average over that period.

On the asset side of the balance sheet, we continued to be intently focused on maximizing earnings while maintaining our risk discipline. To this end, we purchased $17 billion of investments in the first quarter. And despite the persistently low interest rate environment, the yield on our fixed income purchases was approximately 75 basis points higher, net of fees, than the BBB corporate bond index. This outperformance demonstrates both the expanding scale and consistent alpha-generating nature of our active investment management partnership with Apollo.

Our purchase activity for the quarter can be summarized across three primary buckets.

First, we are seeing attractive opportunities for structured securities, such as CLOs and asset backs, which, in aggregate, accounted for 40% of our purchases. As a reminder, we focus on the senior investment-grade tranches of these structured 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 to our corporate purchases. For example, the average rating of the CLOs we purchased during the quarter was single A.

Second, despite the continued tight spread environment, we are still seeing attractive enough investable spreads in public and private corporate bonds, which accounted for approximately 30% of our purchases.

And third, alternative investments accounted for roughly 5% of our purchases, in line with our target allocation. Key transactions this quarter included the completion and funding of our previously announced acquisition of Donlen from Hertz.

Besides day-to-day execution of our growth strategy, we are focused on two near-term priorities that we have spoken about recently to help drive our forward earnings power.

First, we made significant progress in reducing our previously elevated cash balance, having ended the first quarter with approximately $2.5 billion of cash on hand, in line with our desired levels. As such, we expect the average cash balance will normalize in the second quarter and continue to aid our portfolio yield.

Second, we are nearing completion of the redeployment of the inherited Jackson portfolio to bring it in line with Athene's alpha-generating asset allocation strategy. Through April, we have reinvested nearly $18 billion or roughly 85% of the volumes in our redeployment plan, successfully raising the yield on the portfolio by approximately 160 basis points in 11 months. We continue to expect that our redeployment activity will be substantially complete by the middle of this year.

And we estimate that we will be able to increase the gross yield on the portfolio by approximately an additional 50 basis points. This will largely materialize through continuing to align the Jackson portfolio with Athene's overall asset allocation, which includes a 5% allocation to alternatives.

As a reminder, our allocation to alternatives is very similar in magnitude to the average allocation held by the broader industry. However, the way we invest in alts is very differentiated. While others predominantly invest in traditional hedge funds and private equity funds, we make investments that tend to have a defensive orientation, such as strategic operating businesses possessing attractive cash flow characteristics that may offer the additional benefit of sourcing directly originated fixed income investments well suited for various parts of our portfolio.

Our alternative investing strategy has been very successful, with the portfolio generating positive returns each year over the past decade, despite a couple of down years for broader equity markets. And the long-term average net average annual net return for us is more than 11%.

During the first quarter, robust alternative investment income propelled the quarter's operating profitability to record levels, with an annualized net return of 39%. While we certainly do not expect this elevated level of return to recur quarterly, we have observed that periods of stronger than average all performance are repeatable in consecutive quarters or even consecutive years, particularly if some of our maturing investments are building value or unlocking value upon a monetization event.

As I've mentioned previously, we have a track record of strategically planning seed corn by investing directly in businesses we believe in, helping them grow over a multiyear period, while earning income along the way, and then harvesting a strong return upon achieving significant growth or an exit.

In the first quarter, we experienced a confluence of tailwinds, including the impact of continued broader market appreciation as well as a few investment specific drivers. These included large gains on our investments in Venerable, AmeriHome and MidCap, which generated a combined $425 million of investment income in the first quarter.

In line with the dynamic I just described, we monetized our 8-year investment in AmeriHome by selling it to a strategic buyer, as previously announced, demonstrating the accretive opportunity to unlock value upon an exit.

At Venerable, the value of our investment increased significantly due to their transformative business growth, resulting from the pending reinsurance transaction with Equitable. Venerable is an example of an alternative investment which continues to season nicely as the business scales.

And MidCap, which continues to be a very successful investment for us, recognized incremental value because of a recent capital raise, which was priced at a higher valuation than our previous mark.

Importantly, like our alpha generation on the fixed income side, our alternative investing results also directly benefit from the unique sourcing and diligence capabilities provided by our partnership with Apollo. The record results in the first quarter were fueled by gains in businesses we would not have otherwise had access to invest in. This illustrates that the relationship between our two businesses has been and will continue to be a meaningful competitive advantage, with massively compounding benefits for both companies.

Finally, I'd like to touch on an area of increasing importance to Athene.

Last month, we published the 2020 addition of our corporate social responsibility report, which is available on our website and showcases the tremendous progress we have made in our approach to CSR across the company. Within the report, you will find numerous examples and accolades of how our more than 1,300 team members are working together to create a lasting positive impact, particularly in the communities in which we work and live.

During a year which prompted much reflection, we moved to place a greater priority around diversity, equity and inclusion by defining goals, setting objectives and beginning to alter policies to achieve our desired objectives. The senior leadership team and I are fully committed to championing and supporting our efforts in these important areas.

With that, I'd like to turn the call over to Bill for an overview of our origination activities.

Bill Wheeler, President:

Thanks, Jim.

Our organic growth engine continues to perform very well, building upon the strength we demonstrated last year.

In the first quarter, we generated more than $8 billion of total inflows, as Jim highlighted, driving net annualized organic growth exceeding 8%. This is a very attractive result for Athene, and especially when compared to the pace of organic growth of other financial services companies. Importantly, the blended underwritten return on our inflows was squarely in line with our spread and profitability targets, a high mid-teens or better bar that we continue to manage to even in the persistent low interest rate environment.

Turning to each of the channels. In retail, we generated $1.8 billion of inflows in the first quarter, representing a 41% year-over-year growth. More than 90% of our retail inflows were generated by FIAs during the quarter, which resulted in our best first quarter of FIA sales to date. In addition, according to LIMRA, Athene placed first in the industry for FIA sales in the fourth quarter of 2020. And we believe the strength of our first quarter results will see us retain this market leadership position.

Key highlights included the launch of our FIA products on PNC Bank's platform in February, where we saw significant volume, building on our strong existing relationship to expand beyond MYGA products for the first time. We also observed good initial traction with Acuna, our new single term accumulation FIA which went live on March 27 that has been endorsed by Advisers Excel, one of the largest and most reputable independent marketing organizations.

Away from FIAs, the pricing environment for traditional fixed rate annuities or micro products is becoming significantly more challenging. As we discussed on our February call, several competitors have become more aggressive, underwriting MYGA business to breakeven or even negative returns by our estimates. Against this backdrop, we chose to maintain our pricing discipline by emphasizing more profitable products.

In terms of distribution, roughly 40% of our retail sales in the first quarter were generated through the bank and broker-dealer channels, which is a strong indication of the inroads we have

made despite the decline in MYGA activity. Inflows were up 55% and 86% year-over-year for banks and brokers, respectively. This was largely driven by a significant increase in the traction we are seeing from our FIA products outside of the IMO channel.
Bearing in mind that the first quarter is typically the seasonally weakest quarter for retail business, our relatively strong result signals that the year is off to a great start.

Turning to the PRT channel. We generated $2.9 billion of inflows, which marks our second highest quarterly total to date. This was driven by a large-scale transaction with JCPenney that we closed in March, where we were selected to provide annuity benefits to approximately 30,000 pension plan participants. Importantly, this transaction resulted in participant benefits being fully preserved versus other scenarios which would have seen benefits reduced. The JCPenney transaction adds to the long list of counterparties that we serve, including large, well-known companies, such as Bristol-Myers, Lockheed Martin and GE, among others.

Helping these clients manage their long-term pension obligations and servicing them well highlights the progress we have made in becoming a capable and trusted solutions provider to both client sponsors and retirees. We won this exclusive opportunity with JCPenney because of our ability to structure a solution that met their needs, our very strong financial -- we are perceived as a very strong financial and creditworthy partner, and we were recommended by an independent fiduciary.

Regarding market dynamics, except for the large JCPenney transaction, the broader PRT market experienced a relatively light first quarter. That said, given the visibility we have into the pipeline, we are optimistic that 2021 could shape up to be the best year on record for the U.S. PRT market, which may help drive new highs for our business.

In terms of funding agreement activity, we generated $3.2 billion of inflows, which marks our strongest quarterly results to date, representing a nearly fourfold increase year-over-year and nearly 50% sequential growth from our strong fourth quarter levels. One of the drivers of that activity is we continue to expand our funding agreement back note program with Canadian and European markets with three foreign currency-denominated issuances.

Similar to last year, the market remains accommodative to issue an attractive spreads and returns, and we are seeing continued interest from institutional investors. In return, we are optimistic that our inflows will match last year's strong activity. And we've shown continued momentum in the second quarter with over $1 billion of issuance so far.

Lastly, in our third-party flow reinsurance channel, activity remains subdued, in line with what we expected after observing market trends in the fourth quarter. For various reasons, flow reinsurance activity can fluctuate depending on the appetite of the counterparty to supply capital and internalize the business or their willingness to accept pricing conditions that align with our target return threshold.

During the first quarter, we saw more of the latter at play, as the significant portion of our volume in this channel is related to reinsuring MYGA business. As the terms on MYGA business become more competitive, reinsuring MYGA flows becomes incrementally more difficult. Looking ahead, we remain optimistic that activity in our flow reinsurance business will increase as we progress through the year, in part because we expect to reinsure more FIA product, so the recovery will depend upon pricing conditions in the market relative to our target.

In summary, while the pace of organic growth may fluctuate a bit quarter-to-quarter depending on the activity levels in certain channels, we expect healthy organic growth to continue in 2021, and that these inflows will be underwritten to our targeted returns.

On the inorganic front, we see significant opportunity to deploy our excess capital at attractive returns. We are armed with more than $8 billion of deployable capital, which translates to roughly $100 billion of liability purchasing power. And we are still open for business amid the backdrop of our pending merger with Apollo.

We've been talking for some time about the insurance industry restructuring trend, which is a thesis that we think remains very much intact. Simply observing the financial press illustrates that there is no shortage of activity going on. In terms of the pipeline, we believe that there could be several sizable opportunities to come to market this year, complemented by activity at the small and medium-sized end of the spectrum.

We are among the best positioned solution providers in the retirement services landscape given our resources, flexibility and willingness to play our part in this activity. We will, of course, maintain our long-standing commitment to our shareholders to be a disciplined buyer and to deploy capital in a manner consistent with our return targets.

With that, I'd now like to turn the call over to Marty, who will discuss our financial results.

Martin Klein, Chief Financial Officer:

Thanks, Bill, and good morning, everybody.

This morning, I'll provide additional context around our record results and also discuss some forward perspectives.

Clearly, the profitability of our spread-based model remains very compelling. And in the first quarter, we saw the significant alpha which our alternative investments can generate for our portfolio, continuing the trend we saw in the back half of 2020 and expect to see again over time.

We reported GAAP net income of $578 million or $2.94 per diluted share for the first quarter. Our adjusted operating income available to common shareholders was a record $748 million or $3.80 per share. Excluding notable items of $8 million as well as our strategic Apollo investment, total adjusted operating income was $759 million or $3.86 per share, resulting in an adjusted operating ROE of 26%.

Let's cover the key components of our operating results, starting at the top of the income statement. Our large in-force business produces a mostly consistent and predictable fixed income yield. As we previously communicated, we expected some sequential moderation in fixed income NIER, and the quarter's result of 3.57% was essentially in line with our expectations.

Given the current state of the interest rate curve and credit spreads on the margin asset deployment yields and other items such as reduced cash drag and accretive Jackson redeployment, we believe the fixed income NIER has reached an inflection point. We expect that it will trend around the 3.6% level for the foreseeable future, with the potential to increase steadily if long-term interest rates continue their trajectory as well as if the short end of the curve experiences some lift.

To reiterate a point that we discussed last quarter. Remember that since assets from new business flows also carry a commensurately lower cost of funds, our ability to generate target net spreads and earnings growth remains intact.

Turning to alternatives. We experienced the third consecutive quarter of very strong performance, generating a 38% annualized NIER. As Jim mentioned, this is driven primarily by three key holdings: Venerable, AmeriHome and MidCap, as well as market appreciation tailwinds. Looking forward, we expect that our alternatives performance in the second quarter will be a bit stronger than our normalized 10% annualized return threshold, which would mark our fourth consecutive quarter of above-average alts performance.

As you would expect, considering the tremendous start we've had to the year, we anticipate that the alts portfolio will generate a meaningfully better return in 2021 than our long-term average of nearly 11%.

Moving next to cost of funds, and starting with the cost of crediting component. Our reported crediting rate decreased to 176 basis points, down 10 basis points from the prior quarter. This was driven primarily by lower rates on new business, partially offset by a growing institutional liability mix. As we've discussed in prior quarters, all else equal, a growing institutional mix tends to push the crediting rate higher and pull other liability costs lower. And essentially, all the funding costs for PRT and funding agreements business are reflected within cost of crediting.

Looking ahead, we continue to expect cost of crediting to be approximately 175 to 180 basis points in 2021. This is driven by our continued expectation of strong growth in institutional channels coming in at lower marginal costs as well as continued rate actions on deferred annuity renewals.

Turning to other liability costs, or OLC, which represent the other component of our cost of funds for our deferred annuities. Recall that we observed quarterly fluctuations that can occur as a result of factors such as market movements or DAC amortization impacts from higher or lower gross profits. In the first quarter, OLC increased to 90 basis points, up 12 basis points sequentially. This is mostly due to higher DAC amortization, which was driven by the strong alternative investment income we got in the quarter.

Looking ahead, we continue to expect that the baseline run rate for other liability costs is approximately 80 basis points, subject to swings in profitability, market impacts and channel mix.

Shifting to our platform costs. Our G&A expense ratio was stable, both sequentially and compared to the prior year quarter at 26 basis points, which was in line with our expectations. Looking ahead, we expect that our operating expense ratio will decline slightly through the remainder of the year into the low 20s basis point area as we realize the benefits of increasing scale across our business.

Turning to taxes. As a reminder, our tax rate is a function of the proportion of income we generate in our Bermuda subsidiaries versus our U.S. subsidiaries. With a strong operating income performance in the first quarter, largely driven by significant strength in alternatives, our operating tax rate came in at 8%. Looking ahead, we estimate that our normalized tax rate this year will remain around 10% for the remainder of the year, subject to shifts in the mix of income generated.

Putting all the pieces together, it's clear that we started out 2021 in a much better position versus a year ago. For additional perspective on the earnings momentum we are generating, consider that our adjusted operating income of approximately $750 million in the first quarter exceeds what we earned through the first nine months of last year. If the current environment remains intact, we will post new annual highs for earnings and realize substantial growth in book value.

Before wrapping up our prepared remarks, let me comment on capital.

Athene remains exceedingly well capitalized, with approximately $18 billion of aggregate regulatory capital and an underlevered balance sheet. We currently have more than $8 billion of deployable capital, net of what is earmarked for Jackson. This is comprised of excess equity capital, untapped debt capacity of nearly $3 billion and $1.6 billion of available commitments for ACRA.

As a reminder, our priorities for holding this excess capital are: first, supporting organic growth; second, supporting and executing inorganic growth; third, supporting ratings upgrades; and fourth, opportunistic share repurchases.

Of course, we are continuing to execute on the organic side. We are seeing some interesting as far as inorganic opportunities are concerned.

On the rating agency front, I'm pleased to note a recent positive development, with Fitch revising our rating outlook to stable in late February, given the strength we exhibited through the pandemic. We continue to expect that our robust capital levels, our strong and diversified growth, and increasing profitability can support additional positive ratings developments this year.

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

Operator:

At this time, if you would like to ask a question, please press star 1 on your telephone keypad. If you wish to remove yourself from the queue, you may do so by pressing the pound key. We remind you to please unmute your line when introduced, and if possible, pick up your handset for optimal sound quality. In order to ensure everyone receives a turn, we ask that you please limit yourself to one question on the first go-round and hop back in the queue if you'd like to ask a follow-up.

We'll now take our first question from the line of Ryan Krueger with KBW.

Ryan Krueger, KBW:
I had a question about excess capital. And in particular, how much of the Apollo shares that you own are currently counted in your excess capital? And how should we think about [half] the pro forma impact of that on your capital position after the deal closes?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Marty?

Martin Klein, Chief Financial Officer:
Hey Ryan, thanks for your question. I'd say that the way we look at it, we -- if you think about the overall Apollo holding, we assume that about 40% to 45% of that is really kind of required capital. So it's really the excess over that, that would represent kind of excess capital. So that number at the end of the quarter was decently north of $700 million.

We're working with our colleagues at Apollo, and I'm not going to get too specific on this call. But I think it's fair to assume that on or in advance of the merger, that the AOG shares Athene currently holds will be replaced in a way that's capital neutral. But we'll have more developments on that in later calls.

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

Andrew Kligerman, Credit Suisse
Great. Maybe, Bill, you expressed some optimism about the inorganic market for M&A. You thought a few blocks could be coming on, sizable blocks. Any more granularity you could provide there?

Bill Wheeler, President:
Andrew, I'm trying to -- look, I guess I'd say that probably, I can't be more specific. I just think there's going to continue to be a lot of activity. Some of which we already know about, some of which we're expecting. But it's also possible that we may do something that's a little out of the ordinary a little bit in other markets, okay, especially in -- potentially Japan and the U.K. And whether that's a block or it's a big pension deal or whatever, it's -- I think we continue to expand our horizons about what's in scope, and so we're excited about that.

Andrew Kligerman, Credit Suisse
And with regard to the influx of other private equity players in the market, do you worry that it's just a bit too competitive now here in the U.S. for big blocks of annuities and the like?

Bill Wheeler, President:
Well, it can be. It's -- we -- what we've seen is at the smaller end, and maybe even sometimes the medium-sized market, we have seen it become very competitive, right? And we've talked about that before, where pricing seems too aggressive. People are hungry to do that first deal. And what -- at the large end of the market where we really spend our time, given our capital position and given our ratings, we're still kind of in the [pole] position, we think, in terms of being able to execute on bigger deals.

And I think the competition there is still going to be a lot less. But yes, we -- look, we have been anticipating these other companies that are in the market for some time. They've now -- I think, just about all of them have done a deal. And so -- and sometimes they're still absorbing that deal or trying to digest it. And so we're -- so I think we're encouraged. We're not going to have this market to ourselves, but thought I feel good about our chances.

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

Erik Bass, Autonomous:
On the Apollo call, Mark mentioned that Athene may look to use third-party capital to fund a portion of organic growth going forward. Just wondering how you're thinking about the funding mix for future growth and what this could mean for your annual capital generation.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Bill?

Bill Wheeler, President:
Yes, sure. Well, you know today, we use ACRA, right, to -- which we own roughly 1/3 of, a little more than 1/3, to fund M&A and much of our PRT volume. And I think we like the structure. We think it works well. And our expectation is that we'll continue to use both the existing ACRA deal and maybe a subsequent one to fund not only those types of business, but also more of our organic volumes.

And I think that's important because -- so potentially retail, potentially funding, everything. And we may not use it. We may not [say] 100% there, but probably more than we are now. And I think that's important because, one, it's really capital efficient to do that, obviously. And secondly, It helps us remain very tax efficient in terms of new business pricing. And I think that's going to be important for our competitive position. So that's, I think, what the color behind that idea.

Martin Klein, Chief Financial Officer:
Erik, I would just add to that. Very excited about our growth prospects going forward. Just like we've been a big growth company in the past, we expect to be a big growth company in the future.

Erik Bass, Autonomous:
And if I could sneak in one more on the merger. Does joining with Apollo enhanced your ability to acquire new origination platforms and source private assets? And are there any barriers that maybe existed before that there won't be going forward?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Look, I think Apollo and Athene have been the leaders in direct origination and will continue to be so. The fully aligned one company only helps that. Any conflicts in the past, fees, et cetera, I think, will be in the past. And I think the path is why open. So I expect bigger and bigger volumes of directly originated, as Mark says, front-end assets. That's really the key to Athene's growth. And that's a great thing.

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

Humphrey Lee, Dowling & Partners:
My first question is related to PRT. I believe F&G has publicly talked about their interest in growing in the PRT market. And Global Atlantic recently hired someone for PRT from Willis. So I think so far, the PRT market has been more -- mostly among you and some of the traditional life insurers. What are your thoughts on some of these kind of private equity-backed players entering into the space? And can you talk about how you see the competitiveness will -- may trend going forward?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Yes, Bill?

Bill Wheeler, President:
Yes, sure. Humphrey, look, there's -- I think there might be a bit of an evolution going on in the PRT market. I think some of the traditional players, the enthusiasm to put more capital. Maybe that market has maybe softened a little bit, and some new guys are coming in. We're -- we ended up last year as the market share leader in this business. And I think -- I feel good about our chances going forward.

As I said, remember, I said it in my prepared remarks, we think this is going to be the best PRT year ever and -- in terms of volumes. And I don't think that's a trend that's just going to continue because there's just a lot of pent-up demand in corporate America to deal something with their pension plan.

So I'd like to get all that growth business, but I don't know if I can get that greedy. It might be okay I have to share a little bit of it with people. So in this kind of market, I think we feel really good. But yes, even if there is on the margin, maybe a little more competition, we're still going to be very successful.

Humphrey Lee, Dowling & Partners:
Got it. I think, Bill, you talked about -- on the retail side and flow reinsurance side, there are definitely some aggressive pricing going on. Some of them pricing breakeven. But do you see them like trending worse? Or are they -- like can you just give us a little bit more color in terms of what you're seeing over there? And then -- I mean are people getting more aggressive?

Bill Wheeler, President:
I actually think -- well, I don't -- look, I think, Humphrey, it's so aggressive, it's not sustainable, right? I think some people really wanted to get some business, especially in the first quarter. And we saw this really started in the fourth quarter. Because they had been very quiet during the pandemic, the early days of the pandemic, and so they wanted to come back into the market and make a flash.

I -- so because it's not sustainable, we're already starting to see it cool off a little bit. It needs to cool off more and become a little more rational. But these things don't last forever, especially with this kind of pricing. So it's -- so I don't want to get too optimistic that the MYGA business is going to come roaring back for us. I think we have to be cautious about that. But it strikes me as it's already getting better.

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

John Barnidge Piper Sandler:
There have been a number of PRT industry participants that historically have been large in PRT that are pursuing strategic reviews. Can you talk about maybe that change the competitive dynamics in the backdrop of an expectation for a record year?

Bill Wheeler, President:
Yes, it sounds good. Doesn't it, John? The -- look, as kind of consistent with Athene we've talked about in the life insurance sector forever, many traditional domestic life companies, including those PRT participants, have kind of said, we need to change our business mix. We need to be more capital light.

We're not getting an adequate return. And we just -- so we need to think about things hard. And it's -- and I get it why they're kind of doing that. We're in a different spot. We're -- we generate more alpha asset performance, which is very important in PRT. We're more efficient. And so we can earn appropriate returns.

By the way, given our operating admin strategy, which is also differentiated, we're lower costs than they are. So we can get those returns while they struggle. And so I think they're saying to themselves, I like this business, but I'm supposed to also be capital-light. What am I going to do? And therefore, I think that's why you're getting these reviews.

How they ultimately come out, I don't want to predict now. But there -- it's clear their enthusiasm is lessened. And in the face of what I think going to be a terrific volume year, we're pretty excited. And so that's why I think we're bullish on the market this year.

Operator:
Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Greenspan, Wells Fargo:
My first question is on the inorganic pipeline. So as we've seen on a recent rise in interest rates, have you seen on kind of the bid-ask spread narrow? Or can you kind of give us a baseline of where interest rates need to go for that to potentially lead to more transactions getting consummated?

Bill Wheeler, President:
I don't know if -- well -- our interest rates obviously have already bounced up. They're sort of back to where they were at the beginning of last year, more or less. It's -- I don't think this is what really drives executive decision-making about whether or not to do -- to sell a block deal or sell a piece of their business.

I think it's broader than that. It kind of goes back to what I was just saying about this capital-light idea and getting out of capital-intensive businesses where they really can't earn an appropriate return anymore, and just being more aggressive about managing the balance sheet.

Higher interest rates just make it a little less painful for them to do that as they're selling this stuff. And there's general all these sorts triggering, like been a lot great. So I think psychologically, they've already decided to be more proactive. And I don't -- so I don't think it's really tied so much to interest rates as it's really tied to -- they've seen other companies, let's say, Voya, who has successfully transitioned to a capital-light model and has been rewarded handsomely by the stock market for doing that.

And they say, gee, I should do that. That's probably what we should be focused on. And so I think it's less about, oh, it's a specific interest rate environment that's going to trigger, and more about, it's just this trend we're seeing in the life insurance industry as that restructures. And obviously, Athene has positioned to benefit from that. We're the guys who are -- who can say, yes, we can take care of that for you and give you a fair price for them.

Elyse Greenspan, Wells Fargo:
That's helpful. And then my second question, as part of the transaction with Apollo, you guys will see your tax rate go up. So as you look at deals and try to take your return target, do you think that, that will have an impact? Or are there kind of offsets as you think about getting return targets on some of your larger transactions, kind of post -- potentially with a higher tax rate?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Bill?

Bill Wheeler, President:
Sure. Look, I'll -- we're -- Athene's overall tax rate is going to probably increase, right? But that's mainly about the -- on the in-force block and less about new business. And that's -- remember, we just talked a little bit before about using sidecars like ACRA for much of our new business generation going forward. And there, I think we're going to be able to retain most of our tax advantage.

And so I think our ability to both compete for inorganic deals and also, frankly, the right organic new business, because it's the same factor, is going to be preserved. And I -- so therefore, I think our competitive positioning is going to still be there. So I don't think we really have to accept lower returns to win business. I think we're going to -- we're still going to be successful there.

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

Thomas Gallagher, Evercore:
Bill, just in -- a follow-up on the M&A environment. Are you guys still committed to sticking to fixed annuities and FIA type blocks, or willing to broaden out at all? And I asked just because some of the PE competitors you now have, have gone a bit more diversified than you guys have. So I'm just thinking in terms of -- with some of these larger deals, would you be willing to broaden out more?

And I guess just relatedly, on product broadening, are you looking to sell buffer annuities Or have you started to complement your FIA business? I know number of the companies that were selling fixed annuities have broadened into that product category.

Bill Wheeler, President:
Well, we've always been willing to look at broader M&A transactions than just fixed annuities. And we've -- but we haven't consummated any of those deals. And we're -- I think we're very tough-minded about, when we look at a deal that's got any kind of, what I would call, more biometric risk in it than the fixed annuity does, we're -- I think we're very disciplined about how we -- what we assume can go wrong and underwrite the deal carefully. And others, I think, have just -- sometimes are, I think, less focused on that than maybe they should be. We -- structured settlements is a product category that comes to mind that sort of falls in that category.

We're -- so I think the answer is, yes, we're certainly willing to look broader. But our sweet spot, obviously, is the fixed annuity business. That's what we like and that's where we think we can get the most value. But we're -- but we would consider broader, I think, for sure.

In terms of buffered annuities or we call them RILAs, which is a registered product, yes, those are -- look, those have become much more popular. And there's a lot of growth in that sector of the market. Well, we've introduced a RILA product, well, it's been over a year now, 1.5 years maybe. And we've had some success with it, but maybe not as much as we would like. I think we have a good competitive product that we're -- but I feel like we should be doing better in that segment of the market. And I think we're going to take steps to try to make sure we do better going forward.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Okay. Yes, Tom, I would just add to what Bill said. Agree with what he said. It's all about return. We're open to other areas within financial services if we can get higher than mid-teens returns, with our appropriate assumptions. The easy thing for us in a couple of transactions would have been the key for life business, where we didn't have confidence we can get mid-teens returns. So it's really a return expectation decision. And so far, what we've been doing, we think, is really consistent with our return expectations, and as you can see from our results.

Thomas Gallagher, Evercore:
And if I could just sneak in a follow-up of -- I think last quarter, you wrote down your carrying value of the Jackson equity stake. Just curious, did you write that back up this quarter at all just considering how strong valuations have moved up across the life insurance space?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Marty?

Martin Klein, Chief Financial Officer:
Tom, thanks for the question. We've left it kind of alone this quarter. It's really a holding that -- it's essentially a private equity holding. And so we kind of hold it -- generally hold that kind of thing at cost, except when you have some kind of compelling reason: market, things or whatever, to change that.

Obviously, in the prior quarter, we saw some of those things and wrote it down accordingly. We didn't see anything further this quarter. Obviously, with some of the public announcements PRU has made about a potential spin-off in the second quarter, that could well change in the second quarter. But for now, we've kind of left at the same level as we had it in the prior quarter.

Operator:
Your next question comes from the line of Mike Ward with UBS.

Michael Ward, UBS:
I was just wondering about Venerable. Since you guys are a shareholder, I was wondering if there's any perspective or insight you could share on their capacity or inorganic ambitions over the near term?

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Bill?

Bill Wheeler, President:
Yes. I was on a investor conference a month or so ago, and I think I made a crack about it. I think this is going to be the year of the VA deal. And the -- that remains true. The Venerable is obviously just a fantastic home run. And it -- the good news is there's a lot more to do in that market.

I think every major life insure that's got a VA block is probably studying what they should be doing, because of the success, [first] Hartford did, but then obviously, Voya and Equitable have done with their transactions. So I think we -- I think Venerable is going to be very active. And obviously, we love being a significant shareholder there because they've performed very, very well.

Michael Ward, UBS:
Super helpful. And then just on PRT, but from a little different angle. I was wondering if you think part of the reason for the incremental PRT competition could be the idea that some of the life insurers that have done some of the bigger deals within the last [2] years now have to kind of keep doing deals to offset the earnings loss from the natural runoff of the deals they've already done. Do you think that could be driving some of the aggressive competition? And do you think that could be maybe something you face at some point down the road?

Bill Wheeler, President:
This is with regard to PRT specifically?

Michael Ward, UBS:
Yes, yes.

Bill Wheeler, President:
I don't think PRT has been very competitive. honestly. It varies. It's funny. It's a seasonal thing. First, early in the year, PRT deals seemed to be priced pretty tough. And then I think what happens is people get their quota, and then they're kind of like, all right, I'm done. And in the fourth quarter or even late in the third, when there's a lot more volume and a lot more deals to do, suddenly, it's a target-rich environment.

And it's -- in terms of our ability to get terrific pricing and get a lot of volume. And I think it looks like that's what's going to happen again this year. So it certainly happened last year in terms of the deal volumes we did in the fourth quarter and the returns we open to. So I think the environment is actually pretty good.

The other interesting thing about PRT, by the way, is the runoff of those blocks is much slower than, I would say, traditional fixed annuity business. And it's -- and so they tend to just stay outstanding longer. The runoff profile is much lower. So I don't think that -- I don't think runoff in lost earnings is necessarily replacing is what's motivating people to get in the market.

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

Suneet Kamath, Citi:
Marty, could you give us the marks on the three alternative investments that you highlighted? And give us a sense of what the alternative return was excluding those three investments.

Martin Klein, Chief Financial Officer:
Well, yes. I would say that we, probably across the board, Suneet, had stronger-than-normal returns. Even if you exclude that, I think some very positive market backdrops kind of helped all alts. But then obviously, we had some very specific things with the three that we've called out this morning that were particularly outsized.

But really, I think alts generally across the board do kind of better than normal. You can kind of see the dollars that we've reported for the three. And if you back those out of the alts dollars, the returns, you can kind of figure out what the return is. But it's still a decently better number than the kind of what's been a more normalized 10% to 11% rate.

Suneet Kamath, Citi:
And specific to Venerable, because I think you said that was a big one, how do you arrive at that mark? What is the process that you go through?

Bill Wheeler, President:
Well, we -- the Venerable team and working closely with the Apollo's team kind of look at the valuation and go through it. It has been very volatile, but it's gone up a ton over time, with some volatility along the way.

I think with this particular uptick, really, the reinsurance transaction that was recently announced between Venerable and Equitable, and the magnitude of that, obviously, that's had a very positive impact on Venerable's business, but it also impacts the go-forward earnings profile, the return profile of Venerable as well.

So there's -- working with the Apollo and Venerable as -- and using their particular model, but also reflecting this new transaction, which is very significant, really increased the valuation quite a lot.

Jim Belardi, Chairman, CEO and Chief Investment Officer:
Remember also that Equitable is buying an equity stake in that both which is sort of a third-party transaction that also key then to our valuation.

Martin Klein, Chief Financial Officer:
Yes. And they're in discussions right now, so that hasn't been consummated. I think most of our valuation increases really around the reinsurance transaction, mindful that there's a potential equity investment that they may make, but that has not been consummated yet. And we'll leave it to them to talk about that in more detail, obviously.

Operator:
Your next question comes from the line of Ryan Krueger with KBW.

Ryan Krueger, KBW:
I just had a quick follow-up. On the original Apollo, in the BN deal call, there was mentioned that positive purchase accounting adjustments could potentially offset the negative headwind from the higher tax rate. Can you give an update on that, and if that's still your expectation?

Martin Klein, Chief Financial Officer:
Well, Ryan, if you wade through the 600-plus page the core filing that went out last night, you can kind of see the pro forma financials in there. And I would say that, that, at this point, reflects ours and Apollo's best and reasonable estimate of what things will look like. But I would say we'll continue to evaluate that over time.

And the other thing is the pro forma financials presented in the S-4 filing that went out last night are really kind of going back to 2020 and remarking everything at that point in time with a series of assumptions in the balance sheet that we had. Obviously, when we do PGAAP for real, in January, whenever the deal closes, it will be based on where market conditions are at that time and what our balance sheet looks like at that time.

But you can get a sense of it at least for now by looking at the proxy and looking at the PGAAP adjustments. And then we have reported in the proxy kind of a 21% statutory rate as far as tax. That's obviously the current statutory rate, setting aside at the moment what the Biden administration may do in their Made in America tax plan. As we think about that 21% statutory rate, we are looking at a variety of different approaches and structures that may find some efficiencies, but more to come on that over time.

Operator:
That concludes the Q&A portion of today's call. I will now turn the floor back over to Noah Gunn for any additional or closing remarks.

Noah Gunn, Head of Investor Relations:
Great. Thanks, everyone, for joining us this morning and for your continued interest in Athene. If you have any follow-up questions regarding our results or anything we discussed on today's call, please feel free to reach out to us, and we look forward to speaking with you again next quarter.

Operator:
This does conclude today's Athene Holdings First Quarter 2021 Earnings Call and Webcast. Please disconnect your line at this time, and have a wonderful day.

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