

November 3, 2021
Athene Holding (ATH)
Q3 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

Alex Pelzar
Director Investor Relations, Athene Holding

Other Participants

Ryan Krueger
Analyst, KBW

Thomas Gallagher
Analyst, Evercore

Humphrey Lee
Analyst, Dowling & Partners

Mike Ward
Analyst, UBS

Andrew Kligerman
Analyst, Credit Suisse

Eric Bass
Analyst, Autonomous

Rufus Hone
Analyst, BMO

ATHENE HOLDING LTD.
Q3 2021 Earnings Call
Moderator: Alex Pelzar, Director Investor Relations
November 3, 2021
10:00 AM ET

Operator:

Good morning. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to Athene's Third Quarter 2021 Earnings Conference Call and Webcast. (Operator Instructions) I will now turn the call over to Alex Pelzar, Director of Investor Relations. Please go ahead.

Alex Pelzar, Director of Investor Relations:

Thanks, Emma, and welcome, everyone, to Athene's Third 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. 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 on 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. With that, I will now turn the call over to Jim.

Jim Belardi, Chairman, CEO and Chief Investment Officer:

Thanks, Alex, and good morning, everyone. Athene performed incredible well in the third quarter. We originated \$12 billion of organic inflows, which marks a new quarterly record and underscores the amazing scale at which Athene is now operating.

With this result, we have also surpassed the level of total organic inflows we generated in all of 2020, which was our previous record. In addition, our third quarter results highlight that we are on pace to deliver our best year of annual profits ever. These factors combined to drive Athene's adjusted book value to \$71.50 per share, which represents an impressive compound growth rate of 17% per year since inception, a level we believe is unmatched in the retirement services industry and is one of the best in the overall financial services industry.

I'm truly excited to see Athene continue the success as a fully aligned partner with Apollo following the completion of our pending merger in January. A couple of weeks ago, I had the opportunity to speak at Apollo's Investor Day, where I outlined the history of Athene and our business model which at its very core is simple.

We fund ourselves by issuing reinsuring and acquiring retirement savings products. We invest those funds with Apollo into a high-quality investment portfolio and we benefit from keeping 100% of the upside from our investments. From the beginning, we based Athene on a business model that we first executed at my alma mater company SunAmerica. At SunAmerica, we were rewarded for our consistently growing GAAP earnings and ability to capitalize on market opportunities when the company was sold for 6.6x book value.

Athene's business today is bigger, has grown faster and is more profitable with higher returns than SunAmerica 20 years ago. Our track record of profitable growth at scale is exceptional. And as I reflect on our company's history, it's clear that Athene is the most successful start-up in the retirement services space and one of the most successful on financial services in general.

At the same time, I believe that the market has yet to ascribe anything close to full value to Athene, which is part of why we view the pending merger with Apollo as being a strategic imperative to unlock shareholder value. I am more confident than ever that Athene's best days are ahead, and today's results illustrates the tremendous momentum we carry into the future.

With that said, I'd like to touch on some additional highlights for the third quarter. With our record level of organic inflows, we once again held leading market share positions in

our retail, funding agreements and pension group annuity channels, which continues to be a testament to scale, efficiency and solutions-driven product suite that our team has built over the past 12 years.

We were also able to build a ratings upgrade that we received from Standard & Poor's last quarter as Fitch revised our outlook to positive from stable in August. This serves as another indicator of the emphasis that we have consistently placed on our interactions with rating agencies as well as our dedication to balance sheet quality and financial transparency.

With this in mind, we published the latest iteration of our balance sheet tutorial, which we are now in an annual cadence of producing, having released 2 additions of this in-depth portfolio analysis amid the pandemic. This report outlines a range of scenarios, assumptions and results that form the backbone of our portfolio stress tests and provides individual asset class deep dives. The report also very clearly presents the types of risk that Athene does and does not take, which is something that we think is beyond what others choose to publish.

Turning to the asset side of the balance sheet. We focus on yield outperformance and downside protection. During the third quarter, we purchased nearly \$17 billion of investments, which marks our second highest level of quarterly asset purchases ever. The yield on our fixed income purchases was 55 basis points higher net of fees than the BBB corporate bond index. This highlights the benefit that we captured by investing across asset classes including in structured securities through our active alpha-generating investment management partnership with Apollo.

Most of our purchase activity for the third quarter fell into 3 categories: First, despite the tight credit spread environment, we continue to find attractive enough relative value in public and private investment-grade corporate bonds, which accounted for 42% of our purchases as well as fill our target allocations across the portfolio following the large influx of cash from our organic flow; second, we found value-add opportunities in structured securities, like CLOs and asset backs, which collectively accounted for 29% of our purchases.

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 to our corporate purchases.

For example, the average NAIC rating of our structured security purchases was 1.4, solidly within investment-grade territory. And third, Apollo sourced significant volumes of commercial and residential mortgage loans, which accounted for approximately 20% of our purchases. Our portfolio of alternative investments posted its fifth consecutive quarter of above average performance with an annualized net return of 16% in the third quarter driven by broad-based strength across our investments.

Specifically, we saw strong returns from our natural resources, private credit and real estate allocations as well as our equity stake in Jackson National, which recently completed its independent listing. These results were better than expected and support our long-term track record for alternative investment performance of low double digits annually, with lower volatility in equity indices.

As we have discussed in the past, our approach to alternative investments is differentiated relative to traditional hedge fund and private equity strategies. We make alternative investments that tend to have a defensive orientation and are less prone to binary outcome, such as in strategic, well-hedged operating businesses which possess attractive cash flow characteristics and may offer the additional benefit of sourcing directly originated investments well suited for various parts of our portfolio.

As discussed on our prior call, during the third quarter, we announced the acquisition of Foundation Home Loans, a specialist U.K. mortgage lender from funds managed by affiliates of Fortress Investment Group. This acquisition will augment our existing expertise in this asset class and help us source additional high-quality investments.

Then in the fourth quarter, we provided 2 more examples of our strategy at work. In October, we announced the acquisition of a majority stake in Newfi, a technology-driven multichannel mortgage lender from Warburg Pincus. And just last week, we announced that Athene will serve as the lead investor in a strategic merger of Wheels and Donlen, a transaction that brings together 2 best-in-class fleet management businesses to create a combined company with the strongest and most flexible capital base in the industry.

This transaction combines Wheels' 80-plus year fleet management legacy strong client base, history of product innovation, exceptional client service and technology with Donlen's industry-leading scale. The newly combined company will provide a broad range of solutions to clients and Athene will benefit from attractive opportunities for further asset origination and deployment. Both the Newfi and Wheels Donlen transactions serve as examples of the leverage that Athene derives from our strategic relationship with Apollo.

We benefit from Apollo's world-class investment pipeline and underwriting capabilities, which help us to identify and invest in attractive businesses that can also add direct origination and asset sourcing capabilities to our offer generating investment portfolio.

Athene and Apollo have had an incredibly successful strategic relationship since our founding, which will become an even greater advantage after the completion of our merger. It has been my honor to be part of the most successful retirement services company ever based on stock price performance at SunAmerica and now part of the most successful retirement services start-up ever out of Athene.

Since this is likely our last earnings call as a separate public company, I want to thank you, our shareholders, for your confidence in us and we look forward to delivering great shareholder value as part of Apollo going forward. Thank you. Now I'd like to turn the call to Bill for an overview of our liability origination activities.

Bill Wheeler, President:

Thanks, Jim. Athene's organic growth engine produced a record \$11.9 billion of total organic inflows in the third quarter, driving \$27.7 billion of total organic inflows year-to-date. This resulted in net annualized organic growth rates of 8% and 7% in the third quarter and year-to-date, respectively.

The blended underwritten return on our inflows in the third quarter was in line with our profitability targets, which we have characterized as mid-teens or better even amid the persistent low interest rate environment.

Turning to each of our other channels. In retail, we generated \$2.4 billion of inflows, which marks our second highest quarterly total to date. This is a very impressive result

capped by our strongest individual months as we saw more than \$900 million of inflows in September alone.

Notably, competitive dynamics in the MYGA market became more favorable due to rate increases midway through the third quarter, which improved the relative positioning of our product set, even though we did not change our profitability targets. This resulted in a sequential rebound in MYGA sales, which comprised 8% of our retail inflows in the third quarter.

We continue to benefit from the momentum that we have built in our FIA business as FIA sales reached a quarterly record in the third quarter and comprised roughly 84% of retail inflows. The most recent LIMRA data released in September for the second quarter confirmed that Athene held the #1 industry ranking for year-to-date FIA sales.

In terms of distribution, roughly 50% of our retail inflows in the third quarter were generated through the bank and broker-dealer channels, which highlights the significant progress we continue to make in terms of selling more of our FIA products through the independent broker-dealer channel.

Importantly, our strong inflows within retail have been driven by a diverse mix of products. For example, Athene's highest single ranking by sales volume -- product ranking by sales volume now places 11th in league tables, which highlights the fact that we do not rely on only 1 or 2 flagship offerings to drive results.

And second, as we've said in the past, most of our retail products are based on alternative indices, which have performed well and are serving as a tailwind for FIA sales. Also, most of our retail annuities do not carry guaranteed income riders, which allows us to manage duration risk more effectively. These characteristics illustrate that our retail franchise continues to be very high quality in terms of product spreads, differentiation and profitability.

Looking forward, we expect that the fourth quarter will mark a new record for retail inflows. We have a high degree of confidence in this given the scale of our current pipeline, which has been driven by the broad-based momentum that we are seeing across our FIA products combined with a full quarter benefit from the more rational pricing trends for MYGA funds.

Turning to pension group annuities. We generated \$6.6 billion of inflows, our best quarter ever for this channel. This was driven by 3 transactions, including a \$700 million transaction with a large building materials producer, a \$1 billion transaction with a well-known auto parts manufacturer, and a landmark \$4.9 billion deal with Lockheed Martin, which is our largest single transaction to date. The Lockheed Martin, Athene was selected to provide annuity benefits to approximately 18,000 pension plan participants. This is notably the second transaction that we have completed with Lockheed, building upon our initial \$800 million deal in 2018, in which we provided benefits to roughly 9,000 pension plan participants.

The third quarter was also a significant 1 for the broader U.S. market as the confluence of tailwinds made it one of the strongest quarters in recent history. The total market pipeline is continuing to build and some are estimating that there could be roughly \$35 billion in transactions this year, which would be one of the strongest on record.

We expect that more large-scale opportunities will come to market as equity market and interest rate factors are improving pension funding levels and attitude of shifting around the concept of divestment, with plan sponsors becoming more willing to complete transfers in larger increments.

Going forward, this could drive a continuation of the near record industry volumes that we've been observing. With this backdrop, Athene has never been better positioned to succeed. Since the end of the third quarter, our pipeline has remained active. We signed an additional \$1.4 billion transaction in October with a large telecommunications company once again demonstrating our position as a capable and trusted solutions provider to both plan sponsors and retirees.

Turning to funding agreement activity. We generated \$2.3 billion of inflows in the third quarter, underwritten to very strong levels of profitability. Having now issued \$9.6 billion of funding agreement backed note through the first 3 quarters of 2021, we've already reached a new record level of issuance for Athene in a calendar year.

In context of the broader market, we were the #1 issuer of funding agreement backed notes in both the third quarter and year-to-date, and we maintained our position as the third largest overall FABN issuer with nearly 20% market share. We're very proud of this

achievement, which has been driven by the strength of our balance sheet and the breadth of our program with issuances across multiple currencies in the North America and European markets.

We've also continued our momentum into the fourth quarter with roughly \$1.5 billion of issuance. However, looking forward, having already attained record levels of organic growth in this channel, we expect to pause any new syndicated deals for the remainder of 2021. This should allow additional demand to build up in the market, which will set us up for a strong start at the turn of the new year.

Lastly, in our third-party flow reinsurance channel, activity picked up in the third quarter compared to the first and second quarters, which corresponds to the market trends related to MYGA business that we observed in our retail channel. Unlike what we observed in the first and second quarters, pricing dynamics related to reinsuring MYGA flows became more favorable toward the end of the quarter, which resulted in a resurgence of business from some of our larger counties even though we did not deviate from our return targets.

In addition, we benefited from the launch of our newest partnership in Japan during the third quarter, which got off to a solid start. We have continued to make progress toward adding more partners in the U.S. and in Japan, and we're establishing other new relationships to facilitate increased reinsurance of FIA flows, which we expect to come online early in 2022.

Looking ahead, given some of the visibility we have into the activities of our clients, we expect flow reinsurance volumes will likely increase in the fourth quarter as we realize a full quarter benefit from the recent resurgence of MYGA-related business and from our newest Japanese flow relationship.

In summary, we are extremely proud of our third quarter results, which showcase the breadth of Athene's leading market position across all 4 organic channels. With this level of performance, we feel that we will comfortably exceed the revised estimate of \$30 billion in total organic inflows for the year, which we provided last quarter, and we now expect that the Athene's total organic inflows will approach \$35 billion for 2021.

On the inorganic front, in terms of our pipeline, we continue to be actively involved in the marketplace and are tracking several live transactions, including sizable opportunities that we're following in both the U.S. and Asia. Athene is very willing to play our part in the ongoing insurance industry restructuring trend and continues to be among the best positioned solution providers in the retirement services landscape, given our expertise and robust levels of deployable capital, which would support \$100 billion of liability purchasing power.

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

Martin Klein, Chief Financial Officer:

Great. Thanks, Bill, and good morning, everybody. For the third quarter, we reported GAAP net income of \$698 million or \$3.51 per diluted share. Our adjusted operating income available to common shareholders was \$541 million or \$2.73 per share, excluding notable items of \$20 million as well as our strategic investment in Apollo, total adjusted operating income was \$511 million or \$2.57 per share, resulting in an adjusted operating ROE of 15.3%.

As Jim highlighted, we remain on track to deliver our strongest year of profitability yet despite the low interest rate environment as we continue to originate business meeting or exceeding our target returns. Our third quarter results benefited from the significant profitable growth in volumes that we saw earlier in the year.

We also saw a strong performance in our alternatives portfolio which helped offset a greater-than-expected decline in our fixed NIER and resulted in a consolidated adjusted operating return on assets of 126 basis points during the quarter, excluding notable items and our investment in Apollo.

Our large in-force business produces a mostly consistent and predictable fixed income yield. Our third quarter results came in slightly below our prior guidance at 3.49% down 26 basis points sequentially. This decline was driven by several factors, the largest of which was a 12 basis point nonrecurring benefit from prepayments related to our investments in Hertz and mid-cap in the second quarter.

In addition, we experienced 9 basis points of drag, including lower bond call income and 5 basis points of drag from lower on-the-margin yields on new deployment and higher cash balances. As we observed in the last quarter, Athene experienced a large influx of cash driven by our record third quarter and year-to-date organic inflows. These higher cash balances in addition to the drag from new deployment amidst the current lower rate environment in tight credit spread environment are creating a near-term drag on our fixed NIER.

However, since these inflows were written to target returns or better, we expect to see corresponding offsets over time in our cost of funds. Note that while our fixed NIER is about 20 basis points lower than the third quarter of 2020, our cost of funds is about 30 basis points lower than the third quarter of 2020.

We now expect our fixed NIER to be approximately 3.5% in the fourth quarter. Turning to alternatives. As Jim mentioned, we experienced the fifth consecutive quarter of strong performance across the portfolio with an annualized NIER of 16.3% in the third quarter, coming in above our prior expectations.

We benefited from strong returns within our natural resources, private credit and real estate investments. In addition, we saw a gain on our equity stake in Jackson National after it completed its spin-off from Prudential plc, with a subsequent increase in Jackson's share price compared to our carrying value.

Looking ahead, we expect our annualized alts NIER in the fourth quarter to be approximately 11% to 12%, which is closer to our longer-term average. Moving next to cost of funds, and starting with the cost of crediting component. Our reported crediting rate was roughly stable at 172 basis points, down 1 basis point 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 noted in the past, all else equal, a growing institutional mix tends to push the crediting rate higher since essentially all the funding costs for pension group annuities and funding agreement business are reflected within the cost of crediting.

Looking forward, we expect our full year 2021 cost of crediting will be approximately 173 basis points. This is slightly better than our prior expectation of 175 basis points

driven by our expectation of stronger growth in institutional channels coming in at lower marginal costs, combined with continued rate actions on deferred annuity renewals.

Turning to other liability costs, or OLC, which represent the other component of cost ones for our deferred annuities, we typically observe quarterly fluctuations that can occur as a result of factors such as market movements, DAC amortization impacts from higher or lower gross profits and the impact of annual assumption unlocking.

In the third quarter, OLC was slightly lower than our prior guidance at 72 basis points representing a 9 basis point sequential increase versus the unusually low levels we saw in the second quarter. Nearly all of the sequential increase was driven by less favorable equity market performance factors. I'd also note that we chose to delay our typical annual review of actuarial assumptions until the fourth quarter, just ahead of the merger when we will remark the balance sheet under purchase GAAP accounting. So our third quarter results were not impacted by any assumption unlocking.

Looking ahead, we expect that our baseline run rate for other liability costs will be approximately 70 basis points in the fourth quarter subject to swings in profitability and market impacts, lower than our prior expectation of 75 basis points.

Shifting to platform costs. Our consolidated G&A expense ratio was roughly stable at 23 basis points as expected. We continue to expect that our operating expenses through the second half of the year will be roughly equivalent to what we saw in the first half in dollar terms as we continue to drive operating leverage across the business.

Turning to taxes. Our tax rate is a function of the proportion of income we generate in our Bermuda subsidiaries versus our U.S. subsidiaries. In the third quarter, our operating tax rate came in lower than expected at 1.9%. This is due to another above-average quarter of performance from alternatives, which tends to drive our tax rate down. As a result, we now expect that our full year 2021 operating tax rate will be in the mid-single-digit area versus our prior expectation of mid- to high single digits.

To summarize, Athene is now beginning to realize the benefits of the leading scale and momentum that we have worked hard to build. Our results so far this year demonstrate the strength of our spread lending business model, which continues to generate attractive net spreads in line with or above our targets.

We're confident that the record inflows we've already generated in 2021 will become a significant tailwind for our earnings power in 2022 and beyond. Before wrapping up our prepared remarks, I'll comment on capital with a key point that was also discussed at the recent Apollo Investor Day. We believe that Athene's excess capital is a crucial element of our business strategy, both today and in the future.

Put simply, holding significant excess capital allows Athene to benefit from time to market dislocation by not becoming a forced seller of assets and having the flexibility to invest opportunistically at wider spreads than we were otherwise be able to or by pursuing organic and inorganic opportunities, which may arise.

This is a skill that we successfully demonstrated last year in the pandemic and are just beginning to benefit from today. Athene continues to be exceedingly well capitalized with approximately \$18.9 billion of aggregate regulatory capital and an underlevered balance sheet. We currently have approximately \$8 billion of deployable capital, which is comprised of \$3.6 billion of excess equity capital, untapped debt capacity of \$3.1 billion and \$1.3 billion of available commitments for ACRA.

Our 4 priorities for capital deployment have not changed, including, first, supporting strong organic growth; second, executing on inorganic growth opportunities; third, driving additional ratings upgrades; and fourth, opportunistic share repurchases. These are clearly exciting times at Athene, especially given all that is occurring in our business and in our channels with the upcoming Apollo merger. I firmly believe Athene's best days are ahead of us.

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

Operator:

We will take our first question from Erik Bass, Autonomous Research.

Erik Bass:

Can you talk about both the organic and inorganic growth opportunities that you see in Asia? Is this the next big growth frontier for Athene as we look out over the next 5 years?

Bill Wheeler:

Sure, Erik. It's Bill. So I think there's a couple of different opportunities. We're public now that we've taken minority equity stakes in both SWT, which is a Hong Kong-based life insurer with operations in a number of different Asian countries and also a challenger which is a fixed annuity leader in the Australian market. And my guess is there will be others.

And I think that will lead to additional flow relationship deals because is the second largest fixed annuity market in the world, and indexed annuities are just getting started there and -- we think there are products that the consumers will like in Japan, given the level of interest rates, especially.

So we think there are going to be more flow deals, especially in Japan, but maybe in other countries, too. We think there's going to be broad opportunities, especially in Japan because there are changing capital rules which are coming to the Japanese market and that combined with low interest rates is causing a lot of underperforming blocks.

And I think we've seen, even though the numbers are still relatively small, we're seeing a number of Japanese life insurers, both domestic and foreign start restructuring their balance sheets and do reinsurance deals for some of their in-force. And we think that, that's going to -- that momentum is going to continue. And so I think both in terms of blocks and in terms of flow, we're going to see a lot of activity.

And so we're -- we and Apollo are putting more resources against this opportunity. And I wouldn't be at all surprised if we do something significant next year in terms of a transaction or because there's a lot going on.

Operator:

We will take our next question from Ryan Krueger with KBW.

Ryan Krueger:

I was hoping to come up with more interesting question in this for the last call, but I didn't. So, I guess, can you give any more detail on the expectations you have for PGAAP and tax rate changes from the mergers, given that it's close to happening now?

Marty Klein:

Ryan, it's Marty. I'm interested in your question. Yes, listen, we just published put out the latest S-4 proxy filing just this past Monday night. So I'd ask you to reference that if you've had any chance to already see it.

And in there, there's pro forma financials that are reflected in there that reflect the marking of our assets, the marketing of our liabilities. As you may recall from your acquisition finance days, our deferred acquisition costs will get wiped out.

There'll be a new value of business acquired, established, which will be actually negative in our case, which would be helpful to earnings going forward. But I'd reference that you can kind of see the latest and greatest on the pro forma financials in there.

From a tax standpoint, I think Apollo has already disclosed a couple of different times that they expect the combined entity to have about an 18% tax rate -- effective tax rate. And obviously, that would include Athene. We'll clearly become more of a U.S. taxpayer than we have in the past. But I would just say that some of our business and reinsurance strategies will continue to provide some benefits post merger from a tax efficiency standpoint.

The other thing I'd note is that from a competitive standpoint in the marketplace, as has been noted several times, we'll be continuing to use ACRA and perhaps future sidecars an ACRA2 or an ACRA3 and so forth is certainly under consideration. And getting capital from those sidecars is really coming from a funding source that is very, very tax efficient.

So it will help us in our overall pricing, not just on inorganic transactions, but also as we increasingly use ACRA fund our organic business. This quarter, we used ACRA to fund not only our PRT business, but also use it to in part fund funding agreement business, and we'll do more of that next year, including doing some retail business.

So that overall is very helpful as well. And then last but not least, I think the increased tax cost that we may bear at Athene is probably going to be offset or more than offset by increased wrap fees as ACRA take on more and more business.

Operator:

Next question comes from Andrew Kligerman with Credit Suisse.

Andrew Kligerman:

And I guess just being the last call, I just want to say just what a great job you guys have done over the last decade in executing and performing and certainly, good luck with it actually -- it sounds like the market -- it seems that the market is now realizing it. Good luck with that to continue under the Apollo flag.

So I guess the first question is with respect to block transactions and what you're seeing out there? What type of transactions are you seeing? And then in terms of the big ones, are there any left? Or should we expect quiet going forward?

Jim Belardi:

I'll start on the block stuff. So look, there's been some smaller block trades. There's been a couple of larger ones done. There's got a company sold recently. And I would describe the market environment there is frothy. And with the valuations being very high, we participated in all those processes.

But we have been, I would say, pretty disciplined about pricing and making sure that we're going to get our returns. And I think the buyers were much more willing to be aggressive because they strategically thought they needed a platform, right? So they were willing to pay up to get that even though the platform there may not be very valuable, honestly.

But there -- but because beauty is in the eye as a beholder. So it's -- so they're willing to stretch, we don't need a platform. We have the best platform in the business. And we also

are bringing in plenty of money organically. So we certainly don't need to stretch for inorganic deals.

That's kind of what's been going on recently. In terms of the future, yes, there are still some big blocks out there. And in the states for fixed annuities. And so -- and my expectation is the -- there's still going to be a number of transactions in the next year or so that will get done that are upsized. And so it -- and there may be a few more after that, okay? But we're probably reaching -- we're certainly through the middle innings in terms of the fixed annuity block trade, we're probably in the later innings now, for sure.

That's likely to be the case. The industry is also now moving on to other types of liabilities that also have more challenges. And frankly, our -- we'll probably be very costly to restructure for them. And it's -- and so their willingness to take the pain to do that is, I think, yet to be seen. So -- but they're trying -- they're trying to see how aggressive and how hungry the buyers really are.

So we're -- I think our watchword is to remain disciplined, look for opportunities, look for a transaction that where there won't be many competitors because it's either large or complex or both, and also, frankly, spend more time in Asia. and as we kind of broaden our scope in terms of what we're looking at.

Andrew Kligerman:

Meant it, Jim. So -- just a quick follow-up on that, Bill. The big blocks, you would define that as north of \$10 billion, right?

Bill Wheeler:

Yes.

Andrew Kligerman:

And then with regard to pension risk transfer, given that landmark \$4.9 billion Lockheed Martin transaction, what's the -- what's the pipeline looking at like into '22? And maybe just -- we're constantly hearing about that market. Could you size the pension risk transfer market? And you mentioned beginnings on the big fixed annuity blocks. What inning are

we there? I mean, the World Series ended last night. So I don't know where are we on that?

Bill Wheeler:

So this is exciting because we're still in the very early innings of the pensions. So remember, there is something like \$1 trillion or more of well-funded core pension plans that are no longer being used as an employee benefit, right? They are frozen. They're closed. They're just sitting on corporate America's balance sheet and they're well funded.

And they're sitting there causing volatility in those companies' financial statements as the assumptions get changed and macro conditions change, et cetera, et cetera. So Corporate America in general, would like to get rid of that, and they would like to do it methodically because it's work. And the biggest old corporations in America have \$50 billion of liabilities, \$100 billion of liabilities, they got a lot. And there's no real reason why they want to keep it forever. So -- so the overall market potential is quite large.

And we're on the -- and the total PRT market this year is going to be maybe \$35 billion, maybe a little higher. Our expectation is that's going to continue at those levels because it used to be just a couple of years ago, it was more like \$20 billion or \$25 billion. So we've taken a step up. We can even take a further step up, I think.

To some extent, you could argue that market size is determined by how much the life insurance industry could absorb in a given year. But because people like Athene are now entering the market, I think the capital to put against these opportunities bigger, and I think people's appetite for this sort of business, which everybody realizes is good business now is larger.

So I think the overall PRT market will probably continue to grow and never mind the fact that stock market is high, interest rates have bounced off their lows. And so it feels like a good time to unload your plan. So it's -- so I think that you're going to see a strong market going forward.

And to date, with 1 exception, a General Motors deal, which was done about a decade ago, there's only been -- most deals have been -- the biggest deals have been in the \$5 billion range. I think that could change. I think they could get bigger, honestly. I don't

think it's out of the question, you'll start to see \$10 billion deals. And because the market can clearly take those in my opinion.

And so I think that's -- I think PRT has got a long way to go in terms of that market being developed. And by the way, we're the market share leader by quite a ways right now. So we're in a great position to pursue these opportunities

Operator:

We'll go next to Humphrey Lee, Dowling & Partners.

Humphrey Lee:

The NAIC is taking a look at some of the key owned insurance companies and specifically on some of the affiliate transactions. I know the discussion is still kind of early, but have you have any thoughts in terms of how that may affect your business model? And maybe on the flip side, maybe kind of leaf out some of the imitators?

Marty Klein:

Humphrey, maybe just -- it's Marty. Just to ask you state the question again to make sure we heard it correctly. I think we heard most of it we want to make sure we get it accurately.

Humphrey Lee:

Okay. Yes, the NAIC is looking at the -- some of the affiliated transactions by PE-owned life insurance companies especially kind of related party transactions. While the session is still kind a little bit on the early stages, but I was just wondering, have you had any thoughts in terms of how that may affect your business model going forward? But maybe on the flip side, maybe could potentially be for some of the lower quality in the traders?

Marty Klein:

Right. Maybe I'll start out. Listen, yes, we're very aware of it. We've actually been very, very involved in discussions along with others in our industry. I think we've always been

a very big fan of transparency. Frankly, as more kind of imitators get in. It's not really necessarily surprising that some regulators are having kind of upping their scrutiny. And ultimately, while that may be more work from a discussion and disclosure standpoint for us with those regulators, ultimately, it's probably a good thing for the industry that we operate in.

And also, frankly, a good thing for us. We've always taken great pains on all of our complicated larger assets, whether related parties or not to review them with our regulators. So that's always been the case with us, and that will continue. I think it's partly a reaction to a particular bad actor, which I'm not going to get into on this call.

And so I think that's heightened probably somewhat appropriately so of the scrutiny. But I think it'll hopefully be a step that will help ensure that people maintain a pretty high bar in these things. And if they don't, if the regulators will become aware of it and take the appropriate action. So don't anticipate any impacts at all really to our business model itself and to the way we invest. I do think it could impact just the amount of additional discussion or disclosure we have with the regulators. But as I said, we've already been doing that to a very large extent.

Operator:

We'll go next to Tom Gallagher with Evercore ISI.

Tom Gallagher:

At your last earnings call, someone's got to ask a numbers question, right? So I thought I would start there. The -- so excess equity capital went down by \$400 million sequentially. Can you quantify what drove that? Was that mainly increased risk charges from portfolio redeployment or something else?

Marty Klein:

Tom, it's Marty and you can ask a number of questions, if you'd like. There are no rules on the last call. Listen, we wrote \$12 billion of volume. So -- and we were happy to do it at the returns that we got. So that obviously used a lot of capital.

I would note a few things. One is we benefited on our statutory earnings, which were pretty strong in runoff. That helped us probably by \$650 million, \$700 million of results. But the capital we put to work before was probably closer to \$900 million.

So for the first time in a while, the actual capital deployment growth before any assistance for MYGA was more than the earnings and runoff. Again, that's a phenomenon of writing \$12 billion in the quarter of a very, very strong result.

We did get some capital from ACRA as it helped fund some of the PRT and retail -- sorry, PRT and fund agreement business. So that 900 gross deployment number was offset by capital from of about 350. So that's kind of one of the outflows of just capital put to work.

And then finally, putting some more work to alts in the quarter and then doing some holdbacks around some future commitments that we've made kind of get us to 3.6%. The actual excess capital number is probably a couple of hundred million above that, but we've kind of made some commitments for the fourth quarter and a little bit beyond that. We're kind of holding a little bit of capital back for that. So we'll call them the number of \$3.6 billion.

Tom Gallagher:

Okay. Okay. And then Jim, just 1 for you on the credit environment. Just curious what you're -- is there anything that worries you at the moment? You've obviously had some blowups of property developers in China recently, any knock-on effects to some areas that you're invested in? Or just broadly any -- what would the sort of watch list areas that you'd be focused on right now?

Jim Belardi:

Yes. Sure, Tom. So look, we've been very proactive in getting rid of any potential problems in our portfolio even from before the pandemic started. So that's bearing fruit now. I mean, almost nothing in OTTI. We are particularly watching casual dining, hotels, the leisure industry. But based on our underwriting and focusing on properties that have strong sponsors, et cetera, really haven't seen any impairments there.

We have a shrinking watch list in general, our portfolio. And as we're heading into the merger, we continue to be proactive in looking at things that may be a little weaker than we want, any changes there. And so I'd tell you, but I don't think there really is a concern right now overriding concern in our portfolio.

And I think we're heading into the merger in really good shape and the high-quality portfolio is performing the way we want it to, actually better than what we expected before the pandemic started when we had our March '20 call. But yes, we'll continue to watch the industries that are under pressure airlines as well. But a lot of that, that's come back pretty quickly, and our underwriting has really been strong throughout. So fortunately, in our CLO portfolio, no losses and just really iron-clad. So it's going very well.

Operator:

We'll go next to Rufus Hone, BMO Capital Markets.

Rufus Hone:

I was wondering if you had any update around the potential impact of LDTI on Athene and if so, how might this show up in the spread-related earnings that gets reported once the merger with Apollo goes through? And I suppose more generally, do you think this accounting change could be a catalyst for additional M&A?

Marty Klein:

Sure. Thanks for the question. It's Marty. I'll take a crack at that. Listen, LDTI, as you probably know, is a new GAAP accounting standard that goes into effect January of 2023, and there's a number of targeted improvements that are included in it, simplification of DAC amortization and so forth. I think for Athene, I would say at a high level, a couple of different things, and I'll provide a little bit more context.

First of all, no real impact on our excess equity capital, which is driven by regulatory capital. So there's zero impact on that. There's really effectively not going to be any real impact on the adjusted operating income that we report to our shareholders.

And then finally, we'd expect any impact to our GAAP equity to be actually pretty small, almost negligible perhaps depending on the final numbers. And I'll provide some context. If you think about our overall balance sheet, call it, \$160 billion of net liabilities, probably about \$30 billion of those were impacted by LDTI and the other \$130 billion are not impacted.

So of that \$30 billion, \$25 billion of it is in PRT, \$25 billion in PRT and payout annuities. And for that type of business, along with life insurance and long-term care, which we don't have any of, those liabilities going forward under LDTI will be marked to market at kind of a high-grade corporate rate.

Now I'd note that, that \$25 billion was written almost entirely over the last 4 years at very low rates. So the impact of that, probably a pretty small hit to GAAP equity but probably very small given the rates environment at which we wrote that business. And that, I think, contrasts very differently with others in writing business in higher rate environments or who have a lot of long-term care and so forth.

So in that \$25 billion of payout annuities and pension group annuities, maybe a small hit to GAAP equity. The other \$5 billion of liabilities are impacted are our rider reserves which under LDTI will be marked to market. We've said for quite some time now that we're -- we take a rider reserving very seriously. We update our assumptions every year. we feel that our assumptions are very prudent. And under LDTI, we'll actually have a benefit to GAAP equity versus our current rider reserve holdings.

So ultimately, LDTI is going to impact us a small part of our balance sheet and the -- any pressure on our GAAP equity will be offset by good guys and our rider reserves. So it's ultimately going to be, we think, a pretty negligible impact. I'd also note that we're heading into a merger with Apollo.

So as I think we mentioned earlier, we're marking all of our assets and liabilities to market with the merger in January. So that will effectively about a year in advance LDTI get those impacts into our balance sheet. But again, it's -- I won't say it's a nonevent for Athene, but it's relatively close to it.

I do think, and Bill can shed some light on this. I do think it creates some opportunities in the inorganic landscape because while the impact on us is quite modest, some companies

have been holding some businesses on the balance sheet not wanting to take a hit to GAAP equity if they sell a loss. Well, that hit is going to come with the adoption of LDTI or with the disclosure of that I don't know, Bill, if you want to comment on any of that or...

Bill Wheeler:

Well, obviously, LDTI has been known for a while, but it's coming. It's been delayed several times kind of giving the Prisoner rebrief so from sentence. But there -- but I think now companies probably over the next year are actually going to finish their calculation and come up with a fairly precise number of what enough is going to be.

And I think for some companies, the number is going to be large. And they're -- and -- and I think that's going to cause them to realize that, oh, I really do have this kind of a change in my liability discount rate. And so the current interest rate environment has affected me this much. Should I do something about it? And I think come well because it will be very clear how exposed they are to interest rates or some of their in-force.

And so I expect there will be some transactions. I don't know if there'll be a lot, but there will be some. And so I do think that companies are going to -- this is yet kind of another manifestation of the low interest rate environment, putting pressure on management teams to restructure the balance sheet.

Jim Belardi:

Yes. I would just add that we're a big proponent of LDTI. We wish it was adopted earlier based on our conservative reserving, we think we're going to really be a stand out to the positive compared to others. So good question.

Operator:

We'll go next to Michael Ward with UBS Capital.

Michael Ward:

So I think we touched on a few of the inorganic markets out there so far. Maybe, Bill, just curious, given your relationship with Venerable and their appetite for VA. Just wondering if you could provide any update on your view of the pipeline there heading into '22.

Bill Wheeler:

Yes, it looks pretty heavy, to be quite honest. There's a lot going on. I think I made a cracker that got a lot of noise for earlier this year saying this is going to be the year of the VA deal. And I think only 1 has printed so far, as I said that, but there's a lot of activity, trust me. And probably it sounds like more going to enter the freight. So I think the Venerable guys are going to be very busy next year.

And for us, of course, the question is can we join with partner with them and providing a more holistic solution to the companies that are looking at a broader set of issues just more than just VA. And we hope so. but we'll just have to wait and see. I would also say that there are now -- surprisingly, there are new entrants into the VA business, who want to buy VA blocks.

It remains a pretty small buyer's club, but it's getting a little bigger. And I think -- as I think we all know, managing VA blocks is very tricky. It requires a special set of skills and analytic work. And it's -- so it may mean that it may be more difficult for other standard, but they'll but enable is getting some company.

Operator:

That concludes the Q&A portion of today's call. I will now turn the floor to Alex Pelzer for any additional or closing remarks.

Alex Pelzar:

Thanks, Emma, and thanks, everyone, for joining us this morning and for your interest in Athene. If you have any follow-up questions regarding our results or anything discussed on today's call, please reach out to us.

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