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# Athene Holding Ltd. (ATH.PRA)

Investor Meeting - Fixed Income

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### Michael S. Downing

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Athene Fixed Income Investor Update Conference Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions]

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

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

I would now like to turn the call over to Noah Gunn, Head of Investor Relations.

### Noah Gunn

*Managing Director, Global Head of Investor Relations, Apollo Global Management, Inc.*

Thanks, Mike, and welcome again, everyone, to today's call. As many of you know, Athene has historically been a regular issuer in the bond markets for senior debt, as well as an issuer of preferred equity. Athene also sponsors a funding agreement backed note program, which issues notes in the bond markets. This call is specifically

geared for these important investor constituencies as we like to ensure our continued productivity and drive increased market awareness of our financial strength and superior creditworthiness.

It's evident from where our credit trades that our spreads can better reflect our strong fundamentals, especially relative to similarly rated companies. We expect that our ongoing commitment to transparency, leading disclosure and responsiveness to your questions will help drive an appropriate tightening of our spreads. You can find additional information on the business and this quarter's results in the latest fixed income investor presentation posted this morning to Athene's Investor Relations website.

Joining me on the call this morning are Jim Belardi, Chairman and CEO; Grant Kvalheim, President; Marty Klein, Chief Financial Officer; and Mike Downing, Chief Operating Officer.

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

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## James R. Belardi

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

Thanks, Noah, and good morning, everyone. In the second quarter, Athene continued to demonstrate that it's a growth and earnings machine. We delivered the best win-win combination of value-add products for our clients coupled with attractive net investment spreads and profitability for our investors.

When I think back to our founding in 2009, I am incredibly proud of where we are today. Unlike others in the industry, Athene is not reliant on M&A transactions to grow. Instead, we are the beneficiary of four diverse organic channels: retail, pension group annuities, flow reinsurance, and funding agreements. When combined with Apollo's asset management expertise and ability to source attractive investment-grade assets, the result is an extraordinarily strong business with competitive advantages that are unmatched in the retirement services industry.

The momentum in our business continued in the second quarter. We generated a record \$18.7 billion of organic inflows and are confident that we will meet or exceed \$60 billion this year. Amid what we call a golden age for annuities, the significant demand for our products and our market-leading positioning are allowing us to be selective and only choose high-quality business, with the ideal profile of liabilities and the right net spread.

Just last week, Apollo completed a mandatory convertible preferred share offering, raising approximately \$1.4 billion of capital to help Athene capitalize on this attractive market backdrop. This is a clear example of the benefits of our partnership with Apollo and the strongest signal we can collectively send, based on our confidence in our profitable growth trajectory with the same tried and true pricing discipline we've exhibited over the past 14 years.

We operate in an industry that prioritizes capital return, often leaving it ill equipped to grow profitably at the most opportune times. By contrast, Apollo and Athene have a long track record of raising equity capital, cumulatively \$17 billion for Athene's balance sheet, as well as third-party capital contributed by investors who value the consistent and compelling returns our business generates.

Maintaining Athene's fortress balance sheet continues to be our top priority and a meaningful strategic differentiator. Our approach to capital management provides a theme with the flexibility to play offense when unique opportunities arise and includes a prudent margin of safety for when dislocation occurs. Athene is exceedingly well capitalized with approximately \$20 billion of regulatory capital and \$1.6 billion of excess equity capital, well within the AA levels set by the rating agencies.

Credit ratings are extremely important to our business and we are very proud of our long-term track record of consistent ratings improvement. We have gone from unrated at our founding in 2009 to BBB+ in 2013, A- in 2014, A in 2017, and A+ at the time of the 2021 merger announcement. Recently, AM Best revised their outlook upward to positive from stable, and both Fitch and Moody's reaffirmed their respective A+ and A1 ratings with stable outlooks. We believe the rating agencies will continue to recognize our strong financial profile and our commitment to running the company's to AA capital standards.

We're managing Athene's asset portfolio, which is nearly \$260 billion on a gross basis, including assets attributable to ADIP. Our investment philosophy is to generate alpha through illiquidity and structuring premia, not incremental credit risk. We also emphasize downside protection. As a proof point, our credit quality track record is better than similarly rated and higher rated companies in our industry.

Since the beginning of 2020, a period that has included COVID-19, the Russia-Ukraine war, the regional bank crisis and the significant move higher in rates, we have sustained average annualized impairments of only 11 basis points, including just 2 basis points in the most recent quarter. And over the trailing five-year period through 2022, Athene's annualized impairments of 9 basis points compares favorably to the industry average of 14 basis points.

In terms of credit quality, 96% of our available-for-sale fixed maturity securities are investment grade designated NAIC 1 or 2. We also hold high-quality first-lien commercial mortgages, 98% of which have comparable investment-grade designations, as well as residential mortgages, of which 96% are in good standing. Additionally, our structured credit portfolio has significant credit enhancements that makes it safer than individual corporate bonds. Athene's credit profile remains very strong, and we do not see any signs of a deterioration.

Turning to our investment activity, we continue to put money to work in the asset classes where we see the best opportunity to generate returns for policyholders. To this end, we purchased approximately \$14 billion in investments on a gross basis in the second quarter. Our purchase activity primarily fell in the three categories. First, we saw significant volumes of commercial and residential mortgage loans, which accounted for nearly 40% of our purchases. As we continue to see very strong relative value and absolute yield, we have comparably high credit ratings in this asset class.

Second, we found value in public and private corporate bonds, which accounted for approximately 30% of our purchases. And third, we found attractive opportunities in structured securities like CLOs and asset-backed securities, which accounted for roughly 20% 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 and a similarly high ratings profile compared to our corporate purchases. More than 99% of our CLOs and approximately 95% of our asset-backed security investments are investment grade.

To summarize, we are very pleased with our performance through the first half of the year and our accelerating momentum. Athene has a durable and growing earnings profile, a high-quality asset portfolio that generates safe investment-grade yield, and a fortress balance sheet. We have recently observed significant tightening of Athene's credit spreads and believe that market is beginning to take notice of our AA capital level and resilience through periods of market dislocation. There's still much more work to be done and we remain committed to keeping the lines of communication open with our investors.

With that, I'd like to turn the call over to Grant for an overview of our liability origination activity.

## Grant Kvalheim

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

Thanks, Jim. Hello to everyone on the call. Our team's organic growth engine delivered a truly remarkable quarter, which exceeded even our expectations. The nearly \$19 billion of inflows reflects our strong relative positioning and origination capabilities, as well as the extremely favorable market environment that continues to benefit from higher interest rates. To put this impressive result in context, Athene generated more inflows during the second quarter than in the full year 2019. We are experiencing tremendous momentum across our business and are very proud of the progress we've made in a relatively short period of time. The blended underwritten return on these inflows continues to meet our profitability targets, which we've consistently noted to be no lower than mid-teens.

We have a number of highlights to share from across our channels. In retail, inflows remain strong at \$6.8 billion, up 81% from the prior year quarter, as we continue to benefit from what we have deemed a golden age for annuities. Based on the latest available industry data, Athene ranked number one in total annuity sales for the first time. We also continued to be ranked number one in overall index and fixed rate annuity sales and also maintained our number one status in the bank and IMO distribution channels.

While second quarter retail inflows declined from record levels in the first quarter, we're still seeing very strong market demand for retail annuities. The sequential decrease primarily resulted from a purposeful reduction in MYGA-related inflows in favor of prioritizing other channels, such as pension group annuities, which generated record volumes. As we've said in the past, our commitment to profitable growth is a core element of the Athene strategy. We have the flexibility to pivot across products and inflow channels as necessary.

A significant success in the retail channel reflects our ongoing efforts to expand our distribution capabilities. Athene's product portfolio is resonating especially well with customers as industry-wide demand for fixed and fixed indexed annuities has surpassed all other categories. As evidence of our progress with financial institutions, we sourced 70% of retail inflows in the quarter from banks and broker dealers. We expanded our distribution relationships in the quarter by launching multiple Athene products at UBS and we've seen strong initial traction there. We are actively working with other recently onboarded financial institutions to drive increasing business through well-targeted products followed by rapid partner education.

Just last week, we went live at the JPMorgan Chase, one of the largest distributors of annuities in the US, and we're very optimistic about our prospects for continued distribution expansion through financial institutions. We have also prioritized expanding the number of products that we have on the shelves at newly partnered institutions.

While we are building in financial institutions, IMO distribution remains critical to our retail strategy, and we're pleased that we remain number one in that channel and that year to date, sales are up more than 30% versus the first half of 2022.

Turning to flow reinsurance, we generated record quarterly inflows of \$2.8 billion, reflecting significant progress in adding and scaling counterparty relationships in the US and Japan. We successfully onboarded three new counterparties this year and expect to sign a fourth and further expand existing relationships in the second half.

In Asia-Pacific, we have a strong pipeline with multiple opportunities being explored across the region. For the full year, we continue to expect that flow reinsurance volumes will approach \$10 billion, a new annual record.

As I mentioned earlier, our pension group annuity business was the bright spot in the quarter, driven by a roughly \$8 billion solution for a large blue chip client. This was the largest PGA transaction in Athene's history and the second largest in the industry over the last 10 years as far as we can tell. The quarter's activity also included \$1 billion win with a leading communications company.

Both transactions demonstrated the significant scale of opportunity that we see in that market, as well as Athene's ability to provide differentiated solutions to pension plan sponsors, where our ability to structure uniquely flexible solutions sets us apart from key competitors.

With pension plan funding levels still at or above 100%, we expect plan sponsors will remain active and transacting. We have line of sight to several relatively large transactions, which we expect to come to market no later than mid-2024.

Turning to our funding agreements channel, second quarter volume was muted as we maintained our pricing discipline and limited issuance to transactions that met our return targets. We generated inflows of approximately \$150 million via the first-ever Singapore dollar-denominated funding agreement backed note. This is a great example of our flexible approach, where we partnered with one of the leading life insurers in Singapore and established a strategic relationship that could lead to future opportunities across multiple lines of business at both Athene and Apollo.

Consistent with our pricing discipline, we will only issue a funding agreement if it meets our return thresholds and we continue to observe the secondary market spreads for Athene's US dollar FABNs are far too wide versus those issued by other A1/A+ rated companies. This dynamic has kept us on the sidelines for more than a year. We'd love to engage if market conditions allow, but I would be surprised if that happens during the balance of this year. In July, we completed a \$1-billion, five-year secured funding agreement, or what we call FABRs with a single counterparty and we have a healthy pipeline of FABRs for the balance of the year, some of which will be with new counterparties.

Regarding our outlook. As Jim noted, we expect to reach a new annual record for total organic inflows of \$60 billion or more in 2023 with strong profitability. It's clear that we are benefiting from the breadth and diversity of our organic channels, as well as our attractive product positioning in dynamic, evolving markets. We are very excited by our opportunity set across multiple channels, which includes the ongoing expansion and penetration of Athene's retail annuity distribution partners, capitalizing on larger jumbo pension group annuity deals and continuing to build our presence in Asia-Pacific flow reinsurance markets, particularly Japan.

In retail, specifically, we anticipate adding several large new distribution relationships between now and the middle of 2024.

On the inorganic front, we are seeing interesting opportunities on block trades in Japan in both the annuity and life space and continue to be optimistic about transacting meaningful business volumes in that market.

Longer term, we're energized by the possibilities of product innovation and expansion of our retail footprint to currently untapped markets like defined contribution, further broadening retail distribution to new channels and building out our pension group annuity and funding agreement footprint in international markets. Importantly, we see no barriers to growth in any of the channels that we're in. Our inflows in the first half of 2023 significantly exceeded our expectations and we expect continued momentum going forward.

With that, I'll turn the call over to Mike Downing, who will discuss some observations about our funding model and perspectives on surrender activity.

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## Michael S. Downing

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

Thanks, Grant. I'll start with a reminder that we published an informative presentation in May which describes our funding model in detail as well as our observations around the key drivers about those interactions. Simply put, we think the strength of Athene's funding model, which is comprised mostly of spread based savings products with relatively long duration, is a major differentiator of our business. Our liabilities are inherently sticky due to their structural protections and long observable history of consistent consumer behavior, which makes them very predictable.

We recently evolved our disclosure to provide additional transparency across the natural outflows the business experiences. We bucket the activity into two primary groups: maturity-driven contractual-based outflows; and policyholder-driven outflows.

Maturity-driven contractual flows represent maturities from funding agreements, contractual withdrawals from pension group annuities, as well as outflows from MYGA products that have reached their contractual term and have a predictably high lapse rate. Policyholder-driven outflows include income-oriented withdrawals, outflows from policies out of their surrender charge period, and outflows from policies in their surrender charge period. Only the latter is what we would consider unplanned from both our and a policyholder perspective.

Consistent with our prior commentary, the primary driver of Athene's core outflow rate is not interest rates. Rather, the trends that we are observing today are closely related to the timing of the expiration of business that we put on three and five years.

The predictability of our funding model is on full display in the second quarter. Athene's core outflow rate was 15% annualized, roughly in line with the 15.7% rate that we had projected. The annualized outflow rate moved higher compared to 11% in the first quarter, primarily due to an increase in maturity-driven contractual outflows. As we've noted, this component can be lumpy quarter to quarter.

In the second quarter, the drivers of this were approximately \$1.2 billion in funding agreement maturities, as well as outflows related to larger blocks, a three-year MYGA business that reached its contractual term and exited surrender charge protection.

Based on years of observable consumer behavior, we generally expect and plan for this type of business to lapse once it reaches its contractual term. Importantly, each of the policyholder driven components of Athene's outflows remained relatively consistent compared to the prior quarter. Further, we continue to see how well the surrendered charge protections align interests with unplanned withdrawals remaining consistently very low.

For the most liquid policies, those out of the surrender charge period, actual lapse rates were lower than expected, highlighting the natural stickiness of some of the old policies due to other features and benefits that customers value. This result perfectly illustrates that buyers of Athene's annuity products do not view these funds as liquid, but rather as a retirement planning tools. They value principal protection, tax deferred growth and avoid paying fees like surrender charges because of the direct shift to principal.



Looking forward, based on a maturity-driven contractual outflows and assuming the forward yield curve holds, we project that 2023 will mark the peak for Athene's core outflow rates. In the third quarter, we expect that the core outflow rate may decline slightly as we experience fewer maturity-driven contractual outflows.

Athene's funding remains highly durable and lapse patterns remain highly predictable. Most importantly, our products continue to be in high demand as we provide a useful solution within the portfolio of retirees.

I will now turn it over to Marty for a detailed discussion of our financial results.

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## Martin P. Klein

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

Thanks, Mike and good morning, everybody. The second quarter marked another record for Athene on many fronts, with strong normalized spread related earnings of \$874 million and normalized net spread of 166 basis points as we continued to benefit from our large floating rate position, as well as higher on the margin deployment rates in yields and cash balances net of higher new business and financing costs.

Earnings accretion from the higher interest rate environment has exceeded our initial projections through the first half of 2023, given the further increase in interest rates. Athene is firing on all cylinders as we take advantage of multiple tailwinds in the current environment. Our strong capital position supports liability growth. As Mike highlighted, we view Athene's funding sources as highly differentiated and superior in many ways to those utilized by other financial institutions.

Athene's funding comes from products that are predictable and long-dated in nature, which allows us to maintain a balance sheet that is duration and cash flow matched. We maintain the integrity of our matched book with a robust quarterly stress test process on both sides of the balance sheet and we publish these results at least annually. This is a unique practice in our industry and serves as proof of our ongoing commitment to transparency. In addition, we perform cash flow testing on each of our legal entities every single quarter as part of our robust asset liability management risk practices.

Running Athene with a fortress balance sheet is a core element of our strategy. This requires maintaining strong levels of excess capital and being disciplined in capital management decisions regardless of the market [indiscernible] (00:26:06) environment. At the midway point of the year, we maintained a robust capital position with \$1.6 billion of projected excess capital, which is in excess of S&P AA levels, as well as \$20 billion of total regulatory capital.

Athene also had \$7.2 billion of deployable capital comprised of excess capital plus \$3.3 billion of untapped debt capacity and \$2.3 billion of available undrawn third party capital that fuels our ACRA sidecars. In addition to our strong capital position, we have more than \$78 billion of available liquidity, including cash and equivalents, our liquid bond portfolio, committed repo lines, a traditional holding company credit facility, as well as a liquidity facility plus untapped capacity at the FHLB.

Importantly, these metrics do not yet include the sizeable benefit of additional capital from Apollo's recent mandatory convertible preferred share offering. Pro forma for the issuance and subsequent downstream of capital from the holding company, we expect Athene's capital position to increase by more than \$1 billion from already strong levels. This additional capital, paired with additional third-party capital from our ACRA sidecars would allow us to source more than \$20 billion of incremental volumes, further boost boosting both SRE and FRE.



We rely on many sources of capital to grow the business, including strong earnings generation, capital release from runoff, accessing the capital markets through debt and preferred equity issuances and strategic on-demand third-party capital via our ACRA sidecars, which helps preserve Athene's capital ratios and enhances Athene's return on retained business.

We continue to expect ACRA to support approximately 40% of Athene's organic business volumes in 2023. On July 1, the second vintage of our sidecar strategy began to retroactively assume its proportionate share of inflows from the first half of 2023 and will provide ongoing capital support for future growth.

Athene continues to compare favorably with an adjusted debt to capital ratio of 14.4%, well below the 26.5% debt to capital of AA and single A-rated insurers. As we continue to prudently grow our balance sheet, we expect to utilize the capital markets to maintain our target leverage profile.

Looking forward, we recently provided an improved financial outlook to reflect our strong performance and momentum, which was discussed on the Apollo earnings call. To reiterate, for the second half of 2023, we expect Athene's normalized spread-related earnings to be similar to what we earned in the first half in dollar terms. This corresponds to a normalized net spread in the range of 160 to 165 basis points for the third and fourth quarters, which implies approximately 30% year-over-year growth in normalized SRE for 2023.

Our outlook reflects four key drivers: First, continued strong annual organic inflows of \$60 billion plus; second, consistent interest rate levels and shape of the forward yield curve; third, as we previously mentioned, capital supported from ACRA sidecars were approximately 40% of Athene's organic inflows in 2023; and finally, the completion of a previously announced transaction with Venerable, where they recaptured approximately \$3 billion of older payout annuities. This transaction closed in July and will be reflected as an outflow in the third quarter.

Looking further ahead, we also shared our 2024 expectations with normalized SRE growth over 2023 in the low double digits in line with our longer-term expectations for the business. This outlook also assumes the forward yield curve from last month holds, with ACRA supporting its full pro rata share of our incremental growth.

In closing, everything worked for Athene in the second quarter. We set a new record for organic inflows and normalized spread related earnings, selectively adding quality business with blended underwritten returns in line with our profitability targets. Credit quality remains strong and our core outflow rate was modestly better than expected, reflecting the inherent predictability of our funding model.

With our fortress balance sheet and the incremental capital provided by Apollo, we're extremely well positioned for growth in the second half of the year and beyond. Thank you for your time this morning and I'll now turn the call over to the operator to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. The floor is now open for questions. [Operator Instructions] And our first question comes from Peter Troisi with Barclays.

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning, everybody. Thanks again for showing Slide 20 on the surrender activity. It's excellent disclosure. Just a specific question on it. You're showing unplanned surrenders declining quarter over quarter into the third quarter from 1.5% to 1.2%. So, can you talk a little bit about the assumptions that are underlying that estimate for the third quarter? I mean obviously, we've seen interest rate – interest rates increase just over the past few weeks. So, just wondering how you are factoring that into your assumptions for unplanned surrenders for the third quarter?

**Michael S. Downing**

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

A

Yeah, that's a great question. And what I would go back to is in terms of the unplanned surrenders, there will be some volatility quarter to quarter just based on the business that's on our books, what we put on, what's coming off the books. So, it'll bounce around a little bit from quarter to quarter, but the trend line is still going to be just very low. So, think of a trend line running roughly between 1% and 1.5%. And it's going to be in that range regardless of and where we are from a rate perspective.

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Q

Okay. That's clear. Thanks. And then Athene has had a long and successful presence in Bermuda, obviously a number of benefits to domiciling there. Obviously, the tax regime is one of them. So, I would like to hear the perspective from the management team on the potential for a corporate income tax to be introduced in Bermuda and how that would affect your profitability and approach to pricing.

**Martin P. Klein**

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

A

Sure. Good question. It's Marty. Look, I'd say the punch line, and I'll provide some more detail, is we don't expect any impact on Athene. Prior to the merger with Apollo, we at Athene economically, absolutely did benefit from the tax regime or lack thereof in Bermuda and had an overall tax rate of something like 9%. So, with the merger, Athene became a full taxpayer and so the potential draft response that the BMA is out with in response to the OECD's proposal will have no impact on Athene.

I think for us, the major benefit post the merger of being in Bermuda is that for our sidecars, our ACRA sidecars which we've referenced, they are domiciled in Bermuda. So, our third party investors, which provide capital to help fund our growth may not be US taxpayers and so, being in Bermuda benefits them very directly, potentially, but there's no real benefit to Athene from that standpoint.

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Thanks very much for that, Marty. I will get back in the queue. Thank you.

**Martin P. Klein**

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

A

Thanks.

**Operator:** And our next question comes from Ravi Prakriya with Junto.

**Ravi Prakriya**

*Analyst, Junto Capital*

Q

Hi. Thank you for the time and for the call. You've sometimes talked about new money purchase yields and new money origination – originated yields on the liability side. I wonder if you could just share an update on where those are today. Thank you.

**Martin P. Klein**

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

A

I don't think we typically – it's Marty. I don't think we typically share what our new money yields are. I would say that we strive on a pre-tax basis in our channels, in our financial plan to get 115 basis points of spread between the net asset yield that we have, net of expenses, versus our overall cost of funds and expenses kind of all-in except for income tax that excludes the additional investment income we have on surplus. So, that generally translates for us to mid-teens returns and that generally have been pretty consistent.

It moves around a little bit quarter by quarter, when there's big rate movements we try to act very quickly and sometimes can do better than that, but that has stayed pretty predictable. So, as new money rates go up as we're pricing business, we really try to maintain or sometimes do better than those net spread numbers.

**Ravi Prakriya**

*Analyst, Junto Capital*

Q

Thank you.

**Operator:** [Operator Instructions] And our next question comes from Craig Robbins with NISA Investment Advisors.

**Craig Robbins**

*Analyst, NISA Investment Advisors, LLC*

Q

Thanks. Thanks for taking the question. Obviously, the Department of Labor is reviewing some of the pension transfer rules and regulations. Can you just talk a little bit? Obviously, it's been a good growth channel for Athene. How any changes there may, you know, impact the profitability or your appetite to deploy capital into that business.

**Martin P. Klein**

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

A

Sure. You know, the Department of Labor is taking a look at the potential rules, and I think they have until the end of this year to make some substantial changes. We've been actively engaged in the dialogue. I think some of the questions they've had around the insurance industry generally revolve around the use of structured securities and also to some extent around Bermuda domiciles. So, we've had a very active dialogue. I think we've been very vocal and have a tremendous amount of information provided on calls and on our websites on structured credit

and how we believe for investment-grade structured credit, it actually has the same or less credit risk in corporate bonds.

With respect to Bermuda, we've also been very transparent. We hold essentially the same reserves in Bermuda and we hold Bermuda to US capital standards. Not sure that's true for everybody else, but it certainly is true for us. So there's no kind of "Bermuda arbitrage" that we employ other than the tax benefits that our third-party sidecar investors get. So, we're confident that with our continued dialogue and that of others, that the Department of Labor will take a thoughtful approach here and would not expect any impact on our pension business longer-term.

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**Craig Robbins**

*Analyst, NISA Investment Advisors, LLC*

Q

Got you. Thank you.

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**Operator:** [Operator Instructions] And our next question comes from Finian O'Shea with Wells Fargo.

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**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

Q

Hi everyone, good morning. Can you touch on the driver of the venerable recapture? Assuming Athene would earn better returns, is there any trend that is putting pressure on that channel for flows? Thank you.

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**Martin P. Klein**

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

A

No. The Venerable recapture really had to do – Venerable obviously is a company we know well. We have a pretty good-sized investment in it with Apollo. We created Venerable when we were working with Voya to help get them out of the annuity business and Venerable was created to take Voya's variable annuity business and then Athene reinsured the fixed annuities.

At the time of that transaction, which goes back many years, we had a relationship with Venerable where business that was coming into its annuitization or payout period, which is not really Venerable's core business at the time, would come over to Athene and we'd issue fixed payout annuities. And we did that for a number of years, order of magnitude \$500 million a year.

Venerable has gone on to have tremendous success as they continued to do additional variable annuity block transactions. So their variable annuity book has grown quite a lot in size. That means their hedging book has grown quite a lot in size, and so they needed more general account collateral to really be behind those hedges to post against their derivative hedging activity. So, they approached us and we had a dialogue and we felt like, if we could construct a mutually beneficial transaction and a return that will work for us and provide them that reinsurance transaction, so they could then have general account assets that would be a win-win situation and that's what we did.

We continue to reinsure billions and billions of dollars from Venerable. That was a relatively small transaction in the scheme of things.

Further, it'll be recognized – I think Martin referenced this on Apollo earnings call as a gain in spread-related earnings, order of magnitude probably around \$50 million. So, we'll exclude that from normalized SRE, but it will impact favorably our bottom line results in the third quarter.

**Finian O'Shea**

*Analyst, Wells Fargo Securities LLC*

Thanks so much.

Q

**Operator:** And our next question comes from Peter Troisi with Barclays.

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Thanks. It's just a question on the capital that Apollo's raising. Yeah, I think it clearly shows how core Athene is to Apollo. But just curious how you evaluated issuing the securities at the Apollo levels compared to issuing the securities from Athene's balance sheet.

Q

**Martin P. Klein**

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

It's really a good question for Apollo management. But I would tell you that I think a number of different approaches were analyzed, including looking at Athene issuing directly. I think that at the end of the day, it felt like this was kind of the best overall solution, weighing investor needs and additional investors that would come into the stock, simplicity of structure and so on. At one point, we did look at Athene issuing directly, but then it gets a little confusing with additional non-controlling interest and stuff like that. So I think we just went with it. It was a more direct approach from the AGM holding company.

A

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Okay. That makes sense. And maybe last one for me. Just anything Marty that you want to flag in terms of third quarter assumption review for the existing block of business?

Q

**Martin P. Klein**

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

Nothing significant, because if we had something, we would have probably flagged it in our disclosures that have already been released. So we've been continuing to update every single year our business, including – we did it again when we merged with Apollo with our purchase GAAP accounting. So I would not anticipate, at this point, any significant changes, positively or negatively, but we're still going through our review. So that's a preliminary description.

A

**Peter Troisi**

*Analyst, Barclays Capital, Inc.*

Okay. Thanks very much.

Q

**Operator:** And our next question comes from Ravi Prakriya with Junto.

**Ravi Prakriya**

*Analyst, Junto Capital*

Thanks for the follow-up. Two quick ones on originations. One just wondering if there's anything in particular that's unlocking the Japan opportunity right now. It sounds like that maybe is accelerating in the runways elongating.

Q

And the second, maybe to the point on capital. Just raising the capital that you've now raised change the appetite for the lever of MYGA that you may be throttled down in Q2 given the volume of PRT. Thank you again.

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**Grant Kvalheim**

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

**A**

I think those are mine. So, look, I think Japan is a couple of things. They have a new capital regime that takes effect 1/1/2025 and we think it will lead to some significant transformations of companies in that space and we want to be a part of that.

So I think the other thing is we've had focus on it. We've got a small team on the ground in the region that's helped immensely and success brings success. So as we've done some of these flow transactions, it raises the sights of other people and gets us into other dialogues. So it is the second largest annuity market in the world after the US, the demographics are very same as in the US, we have the same challenges of people not adequately saved for retirement.

So it's just a lot of positive attributes of that market that we think our core expertise can address, and we're not trying to start a retail company there and compete. We are saying, we're the partner of choice, right? We have expertise in product creation and risk management and then, we develop products with them and partner through reinsurance flows back to Athene. So, it's part market structure that creates the opportunity, part our focus, and part what we bring to the table.

So we continue to have solid expectations there. But it's not just Japan. We're doing some things in Singapore and exploring opportunities elsewhere in the region. But certainly, the largest opportunity in the region is Japan.

Well, the reason – the capital that we raised really wasn't about this year. It really – we could continue to originate the kind of levels we think we were going to get through this year of \$60 billion without the new capital. So the new capital is really about can we continue to expand beyond that \$60 billion? We think there's opportunity, as you heard Marc Rowan say in the Apollo earnings call, he estimates we left this year \$10 billion to \$20 billion of origination possibility on the table. And this incremental capital and the capital we're raising through ACRA will allow us to capitalize on those opportunities.

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**Ravi Prakriya**

*Analyst, Junto Capital*

**Q**

Thank you.

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**Operator:** And at this time, I'm currently showing no questions in the queue. I will now turn the call back over to Noah Gunn for additional closing remarks.

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**Noah Gunn**

*Managing Director, Global Head of Investor Relations, Apollo Global Management, Inc.*

Great. Thanks for your help this morning, Mike. And thank you all for joining, for your time and attention. If you have any follow-up questions on anything that was discussed on this morning's call, please feel free to reach out to us. And we hope you all enjoy the rest of your summers. Thank you.

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**Operator:** Thank you. This concludes today's Athene fixed income investor update conference call. Please disconnect your line at this time and have a wonderful day.



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