

01-Aug-2024

Apollo Global Management, Inc. (APO)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Noah Gunn

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

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

Scott Martin Kleinman

Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

OTHER PARTICIPANTS

Glenn Schorr

Analyst, Evercore ISI

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Patrick Davitt

Analyst, Autonomous Research US LP

Brennan Hawken

Analyst, UBS Investment Bank

Craig Siegenthaler

Analyst, Bank of America

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Alexander Bernstein

Analyst, JPMorgan Securities LLC

Bradley Hays

Analyst, TD Securities (USA) LLC

Benjamin Budish

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Apollo Global Management's Second Quarter 2024 Earnings Conference Call. During today's discussion, all callers will be placed in a listen-only mode, and following the management prepared remarks, the conference call will be opened for questions. Please limit yourself to one question and then rejoin the queue. This conference call is being recorded.

This call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements. Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the company's website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Apollo fund.

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

Noah Gunn

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

Thanks, operator, and welcome again, everyone, to our call. We appreciate the opportunity to speak with you and discuss all the momentum we're seeing across the firm.

Earlier this morning, we published our earnings release and financial supplement on the Investor Relations portion of our website. We reported solid second quarter financial results, which included record quarterly FRE of \$516 million or \$0.84 per share, and SRE of \$710 million, or \$1.15 per share. Combined with principal investing income, HoldCo financing costs and taxes, we reported adjusted net income of \$1 billion, or \$1.64 per share.

Joining me this morning to discuss our results in further detail are Marc Rowan, CEO; Scott Kleinman, Co-President; and Martin Kelly, CFO.

With that, I'll hand the call over to Marc.

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

Thank you, Noah. Good morning to all. Thank you for joining us. Happy summer. Those in New York certainly know what I'm talking about.

This quarter was a good reminder that great companies are built by honoring the fundamental promise they have made to their clients. In our industry, alternative assets, the fundamental promise that we made to our clients is excess return per unit of risk. Absent that, I'm not sure why we as an industry would exist. This promise, the delivery on this promise was on full display across the entirety of our franchise for the quarter. It's true in private equity, in hybrid and in our credit franchise.

Just a quick tour of the quarter. In private equity, we announced three transactions in the past 30 days: Travel Corp., Everi and IGT Gaming. Truly an amazing set. Team is working around the clock. If you think about the last decade of our private equity franchise, which is encompassed by Funds IX and X, \$45 billion of capital, \$13 billion

already realized. In Fund IX, as of the end of the quarter, 29% gross, 20% net. In Fund X, 47% gross and 20% net. Notwithstanding headwinds across the private equity industry by people who perhaps strayed from a fundamental promise, the team is doing an unbelievable job.

In hybrid or equity that is private, something we'll talk more about on Investor Day, AAA, which is our flagship vehicle, returned 10% over the last 12 months with on-track quarterly results. We now have positive returns in AAA 16 quarters in a row. To give you a longer-term perspective of why investors like hybrid, we've had two down quarters over the past 38 in a market characterized by volatility, by indexation and correlation, by key bets on very high-flying companies. The notion that you can achieve double-digit rates of return in the equity market and still have downside protection and reduced volatility is incredibly attractive to investors across the entire spectrum, from retirees to those seeking to accumulate.

We have \$17 billion of NAV now in our AAA vehicle. And as I've suggested, I expect this will be our largest fund over a period of time. Credit, which is the largest of our franchise, also had an amazing quarter. We were early in credit and we have built a leading and a differentiated franchise. Recall that the differentiation of our franchise is a unique focus on investment grade, private investment grade to be specific.

To give you just some of the performance stats for our major vehicles for the quarter, our total return fund up nearly 2% for the quarter, 10% latest 12 months. Structured credit and ABS, 2% for the quarter, 15% for the latest 12 months. ADS, our direct lending vehicle, private market BDC, if you will, up 3.4% for the quarter, 17% latest 12 months. Direct origination, 3.8% for the quarter, 19% for latest 12 months.

Across the entirety of the franchise, equity hybrid and credit, this was an awesome quarter. I start with performance, because ultimately, the reward for good performance is more work. In our case, more work is inflows. We had record inflows for the quarter for a non-PE franchise year of \$39 billion; institutional was \$16 billion; global wealth, \$4 billion, up 50% versus the first quarter; and our Athene had organic inflows of \$17 billion. It was truly a great quarter across Asset Management.

Asset Management is generally benefiting from tailwinds. What we're seeing in our business is not the result of a quarterly spike or peak. We're seeing a fundamental shift in the marketplace and it is happening across the entirety of our franchise. You step back and think about what the big drivers are, certainly the big driver in credit, we are looking at three really interesting trends. Think of the places that capital is needed in our economy over the next decade. We are going to spend an awful lot of money on next generation of infrastructure for data centers and AI. We are going to spend an equal amount of money for energy transition. And we are going to spend a lot of money on what I'll call normal infrastructure.

All three of those things are long-dated. Many of them are structured. Many of them are complex. These are the kinds of things that are not well-suited for institutions, who are funded short. These are exactly the kinds of transactions in the investment grade market that we expect to drive our business and are driving our business. The way we look at the driver of our business, certainly in credit, is by originations. Recall that we have \$125 billion target for this year for originations. We originated \$52 billion in the quarter, including \$11 billion from Intel alone. We are quickly approaching \$150 billion target that we set for 2026. And the team is unhappy to hear this because they know I'm going to revise the number up.

Just to give you a sense for how strong the trends are. Year-to-date, we've deployed \$17 billion in next generation infrastructure alone. I expect this not to be a one- or two-quarter blip. I expect this to drive our business over the next decade against the backdrop of regulatory change, against the backdrop of government borrowing, and all the other trends that we know are happening in fixed income.

Origination also drives for us capital solutions. Capital solutions fees and revenues are the byproduct of the successful origination franchise. Fee revenue totaled more than \$200 million. We are on pace for a record year. Our pipeline is as strong as it has ever been, and we will continue to build out the business both by industry and by geography, including major advances in Australia and in Asia because the need for originated, high-quality investment grade assets with spread is global.

Let me turn now to Athene and Retirement Services. Retirement Services is now in its 15th year. We've basically grown our earnings over 15 years at 15%, including 26% last year. Just like in Asset Management, good performance is ultimately rewarded with more capital. In Athene's case, this is the ability to attract strategic investors to support Athene through its sidecar, which we call ADIP. ADIP is the capital engine that helps Athene scale its business and run a truly efficient franchise. ADIP II has now closed and raised \$6 billion, almost twice as much as ADIP I. As far as we know, this is the largest third-party capital sidecar in the Retirement Services industry. For the quarter, Athene hit every operating metric, new business volumes, underwritten returns, credit quality, expenses, surrenders, capital.

The quarter was impacted by profitability – excuse me, profitability for the quarter was impacted by the roll-off of exceptionally profitable business, which was put on during the peak of COVID. That same roll-off of business will also occur in the next quarter. Also, during the quarter, the disagreement over the direction of interest rates toward the beginning of the quarter provided us opportunities to do additional hedging, which we did for the quarter. The roll-off of this business and hedging essentially cost us growth for the quarter and will cost us growth for Q3.

We expect by Q4 the business to grow and to be back on trend. The result being that we will achieve, in our estimation, mid-single-digit SRE growth for the year, accounting for the two loss quarters, and we will return to trend double-digit growth next year. Martin will detail further and will dissect the pieces of this business, which I know are of interest to many of you. Athene is on track for \$70 billion of organic inflows for the year.

When I step back, we are simply fortunate to have delivered on our core promise to customers and to be in a market and in an industry that is driven by long-term tailwinds. We have essentially four tailwinds in front of us. The first I've already detailed, which is this voracious need for capital, most of which we believe to be investment grade. That will drive our fixed income franchise, fixed income replacement.

The second, retirement is a fact of life. We are all getting older. We have so far over the first 15 years of Athene won by producing incredibly good returns, not just for investors, but for customers. But essentially what we have done is we have modernized existing products. The opportunity now exists for the – an entire next generation of products to serve retirees, whether they are in the traditional insurance sector or they are in the vast pool of 401(k)s, which heretofore has been off-limits to most alternative assets providers.

The third, our entire industry over a 40-year period has been built out of a small bucket of the institutional marketplace. We are watching an individual marketplace led by family offices and high net worth of individuals that I believe will grow to be the size of the institutional market over time. And finally, and a notion that we will spend lots of time on at Investor Day, we are watching investors fundamentally rethink the difference between public and private. We grew up thinking that private was risky and that public was safe, and that probably was true 40 years ago. Private represented three products: private equity, venture capital and hedge funds, and public diversified portfolio of stocks and bonds.

What if our fundamental [ph] premise (12:40) is wrong? What if private is both safe and risky, and public is both safe and risky? The entire basis on which we have constructed portfolio allocation will need to be rethought. I don't have to guess at this. This is already happening in the fixed income bucket of our large institutional clients, who are making daily tradeoffs between the public investment grade and private investment grade. It is happening in fixed income first because there are helpful gatekeepers or signposts, call rating agencies, who help investors discern quality between public and private markets. It is also helped by that there is not real liquidity in public fixed income markets. So, the tradeoff of liquidity is not that immense.

The opportunity in front of us over the next few years is fixed income replacement, which will provide a turbocharge to an otherwise healthy business. But make no mistake, replacement is coming for the equity business as well. We will end up with a portion of public equity that decides that equity can be private as well, and we will have access to other parts of our institutional investors allocation. We look forward to seeing you at Investor Day, and it certainly has been an active summer. And with that, I will turn it over to Scott.

Scott Martin Kleinman

Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.

Thanks, and as Marc touched on, each of our core business drivers, deployment, investment performance and capital formation, were strong in the second quarter and highlight that momentum across Apollo is building. As we've discussed, our current five-year plan is underpinned by three strategic growth pillars, including origination, global wealth and capital solutions, all of which are tracking ahead of our 2026 targets and fueling growth in our franchise and our earnings power.

On the investing front, gross capital deployment surged to a record \$70 billion in the second quarter. The driving force of this strong investing activity was debt origination, complemented by deployment in hybrid and equity strategies. Record debt origination in the second quarter was driven by broad-based strength across all three forms of origination: traditional, platforms and record levels of high-grade corporate solutions activity.

Combined with the strong first quarter, debt origination volume in the first half of the year was close to the total amount originated for all of 2023, highlighting the increasing scale of our ecosystem. We expect momentum in overall deployment activity to persist, given the line of sight we have to robust transaction pipelines in both our equity and debt-focused businesses.

As a result of the higher interest rate backdrop and structural changes in traditional financing markets, we're seeing a lot of demand for customized, long-dated solutions that utilize debt capital, equity capital, or a combination of both. We believe we're uniquely positioned to meet this need by accessing our lower cost, scaled long duration capital within Athene and elsewhere, coupled with our flexible investment approach that aims to maximize risk return across the capital structure.

Within second quarter activity, the Intel transaction Marc explained earlier is a prime example of how we combine these powerful advantages to serve clients in a differentiated way. Importantly, we expect the markets for these type of transactions to grow from here, supported by the multitrillion-dollar opportunity to finance the clean energy transition and AI infrastructure build out.

Another theme we're observing in the current rate backdrop is that the bid-ask spread between buyers and sellers is persisting, hampering investment activity for most. At the industry level, the second quarter saw the lowest number of private equity deals in a quarter since the onset of COVID. This is a moment where our PE capabilities have the opportunity to shine. We believe that, unlike others, we're well-positioned to capitalize amid these conditions given our ability to find value, structure creatively and embrace complexity.

As Marc highlighted, we've announced five transactions in just the last couple of months, representing approximately \$15 billion in total enterprise value at an average creation multiple of under 7 times. And our deal pipeline looks strong from here. Ultimately, all of our sourcing and origination activity is a function of being able to find interesting investments and deliver good outcomes. And indeed, we're doing that across the business.

Returns across our yield-focused strategies remain strong. For example, direct origination and structured credit portfolios have appreciated 19% and 15%, respectively, over the last 12 months. Hybrid value had a standout quarter with the portfolio appreciating 5% in the second quarter and 17% over the last year. And another of our flagship hybrid businesses, Accord and Accord+, has also delivered robust returns over the past year, totaling 17%. And as Marc alluded to earlier, our PE portfolios are enjoying very strong performance and are marked at very defensible valuations.

Strong investment results are helping to drive strong capital formation. Inflows totaled \$39 billion in the second quarter across our Asset Management and Retirement Services businesses, bringing total inflows close to \$80 billion in the first half of the year. Within that, third-party fundraising, excluding any leverage or segment transfers, has been particularly robust, totaling \$20 billion and \$33 billion in the second quarter and year-to-date, respectively. This momentum gives us confidence that we're on track to achieve our \$50 billion fundraising target this year.

Second quarter fundraising activity included a record amount of third-party capital raised in yield, as well as strong hybrid inflows. Fundraising was diverse across a range of products and also benefited from some sizable institutional commitments. Some of the more significant drivers by strategy included asset-backed finance, multi-credit, large cap direct lending, ADIP, opportunistic credit and infrastructure equity.

Additionally, we recently secured a sizable strategic investment from Mizuho Bank in Apollo Clean Transition Capital, our flagship climate and transition credit strategy. This capital enables us to continue building a strong portfolio following initial seed investments in 2023, as we position the strategy for a broader fundraise next year. Importantly, Mizuho's limited partner commitment is the largest they've ever made, which speaks to their support and advocacy of energy transition as well as the broader Apollo relationship.

Turning to global wealth, our momentum remains strong as we continue to solidify our position as one of the top players in the market. We've raised north of \$6 billion in the first half of the year, including record fundraising in the second quarter, positioning us to exceed the \$8 billion of capital raised last year. The most significant contributor to our growth momentum is Apollo Debt Solutions, the non-traded credit BDC we manage. Performance remains stellar with the fund's Class I share returning more than 13% net over the past year from a portfolio comprised almost entirely of first lien loans. Monthly inflows averaged over \$500 million in the second quarter, reflecting these strong returns, continued traction with global distribution partners, as well as new approvals across channels.

Additionally, we're focused on further broadening access to the strategy on a geographic basis by extending into Europe, Asia and LatAm via our Luxembourg-based product platform. As we think about the evolution of our private credit offering in the global wealth channel, we're very excited about introducing an asset-backed strategy as a complement to what we've built with ADS. Initial interest in Apollo asset-backed credit company, or ABC, has been quite strong, as we believe distributors recognize the scale, diversity and maturity of our asset-backed finance franchise as a significant competitive advantage. We've just launched ABC in the global wealth market, and we expect flows to increase as we expand distribution to wirehouses over the coming quarters.

More broadly, as we think about how best to access different client segments, we've also been engaged in a number of conversation around partnerships. Our role can and will take on multiple forms, ranging from joint ventures to parts provider. We're at the center of these conversations and what's an incredibly robust opportunity set.

With that, let me turn it over to Martin to cover our financial results in more detail.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

Thanks, Scott, and good morning, everyone.

So, as we execute on our strategy, the building blocks powering our business, asset origination, capital formation and investment performance, as you've heard, are setting us up to continue generating attractive long-term earnings growth. Let me close out with some comments on our Q2 financial performance and outlook in advance of a comprehensive review of our next five years at our Investor Day on October 1.

Starting with FRE results. Fee-related revenues increased 11% quarter-over-quarter and 18% year-over-year, driven by solid growth across all three revenue streams. Management fees grew 3% and 8%, respectively, driven by strong capital formation activity. Capital solutions fees, as you heard, exceeded \$200 million in a quarter for the first time, reflecting strong growth across the broader debt origination ecosystem that included a record quarter of high-grade corporate solutions activity. And fee-related performance fees, which are spread-based versus NAV-based in our business, continued their upward trajectory. Driven by our credit business, including growth in ADS, these fees have a high degree of stability and are now run rating at more than \$200 million on an annualized basis.

Looking to the second half of the year, management fee growth should be aided by healthy organic inflows at Athene, fundraising activity in equity strategies, and the deployment of capital we've already raised. We're currently sitting on a record \$55 billion of management fee-eligible AUM, of which approximately 80% is in yield and hybrid strategies, which generate fees when the capital is invested.

Given the robust results in capital solutions in the first half of the year, we expect full year fees to be stronger than originally expected, inclusive of expectations for normalized fee revenue in the third and fourth quarters, supported by the very healthy pipeline that Marc referenced.

Turning to FRE expenses, the sequential increase in fee-related compensation resulted from continued investments in building out our capital formation and credit investing teams, as well as some pull through of strong fee-related revenues to compensation. We also recognized a \$15 million one-time item in non-comp expenses related to a fund merger that we previously commented on. Importantly, we're on track to grow total fee-related expenses by a low double-digit rate in 2024, inclusive of the one-time expense.

SRE. So, moving on to Retirement Services, the fundamentals underpinning Athene's business remain fully intact and very strong relative to the industry. Organic inflows continued to be robust, totaling \$17 billion in the second quarter and \$37 billion year-to-date. We are benefiting from [audio gap] (24:11) four organic growth channels and leading market share in the US annuity market, as well as strong secular tailwinds driving demand for retirement income solutions. The combination of our first half results and competitive positioning gives us continued confidence in reaching our \$70 billion organic inflow target for the full year.

Profitability on new business has remained in line with targeted returns, both in terms of spread and ROE. Through our differentiated origination capabilities, we're able to invest new business volumes in attractive investments that generate excess spread through structure and [ph] illiquidity (24:50). We've continued to deliver value so far this year, driven by deployment into directly originated investment grade credit of more than \$10 billion, spread of approximately 200 basis points above comparably rated public corporate benchmarks.

In terms of our Q2 financial results, adjusting for long-term expectations of 11% for the alternatives portfolio, the net spread would have been 27 basis points higher, and on a comparable basis, the Q2 net spread was 6 basis points lower than Q1. There are three dynamics that influence the spread performance. One, nearly \$4 billion of highly profitable funding agreements issued during COVID market uncertainty at a low 2% cost of funds and invested at attractive spreads matured in Q2.

Two, we strategically executed hedges primarily in Q1 and in Q2 to immunize earnings exposure to potential changes in interest rates, the cost of which is expected to be an approximate 5% headwind to earnings growth this year. Three, we also allocated more than 40% of our first half purchases to corporate securities, compared with 25% to 30% in 2023. And we experienced some back-weighted deployment activity, a dynamic we also experienced last quarter.

Considering these factors and their impact on the second half of the year, along with in-line business performance, we expect our SRE growth rate for 2024 to be in the mid-single-digit percentage range, assuming an 11% alternatives return. We anticipate our net spread to be approximately 150 basis points on the same basis. For the back half, we expect Q3 SRE to be in line with Q2 before growth resumes in Q4 at a more normalized rate.

Turning to ADIP, integral to Athene's long-term success, we view the \$6 billion fundraise for ADIP II, the second vintage of our strategic third-party capital sidecar, as further validation of Athene's attractive growth trajectory. This vehicle invests, side-by-side Athene, in new business, enabling Athene to scale in a capital-efficient manner while providing an attractive risk-adjusted return to fund investors.

Organic growth at Athene continues to be very attractive in today's environment, equating to an approximate 20% return on equity to the HoldCo when accounting for spread earnings, management fees and sidecar fees generated. We view the sidecar strategy as a true strategic differentiator as we look to penetrate the massive Retirement Services addressable market in front of us.

Before concluding, let me spend a moment on Athene's alts investments. Athene's alternatives portfolio is highly diversified and constructed to generate a hybrid-like risk and return profile. Most of the portfolio is represented by AAA, which had a 9% return for Q2 and 10% over the last 12 months, inclusive of significant cash being held for future investment.

The remainder of the portfolio is in several Retirement Services companies, including Athora, Catalina, Venerable and FWD, which are all strategic investments and important to our long-term growth, but which have underperformed the broader portfolio on a market valuation basis.

With that, I'll turn the call back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting the question-and-answer session. [Operator Instructions] Our first question comes from the line of Glenn Schorr with Evercore ISI. Please proceed with your question.

Glenn Schorr

Analyst, Evercore ISI

Q

Hi. Thanks very much. I just want to get a clarifier on your outlook. So, you talked about what would impact the second half versus the first half on the alternative of the net investment income, so I appreciate that. Is that back to double-digit trend next year? I just want to be clear. Does that mean 2025, you hope to grow low double digits over what is the new thought process around 2024?

And does that – you mentioned that includes an 11% return on [ph] alts (29:37), which was kind of half of that recently. Maybe you could help us with what produced the underperformance of Athora and Venerable. This seems like a good environment. Why are they not performing their normalized return? Thanks a lot.

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

A

So, Glenn, the short answer is yes to what you've said. But we do anticipate growing double digits over the results for 2024. In the alts book, as Martin was saying, we have two types of alts. One is the invested alts. Most of the invested alts are inside of AAA, which posted – which is LTM 10-ish, maybe just over 10%. And that includes a substantial amount of cash, which is yet to be invested, which is being invested, which gives us great comfort that we'll be in 11%.

In terms of the back and forth over the strategic investments, Catalina and FWD have not performed well and are basically flat. Athora and Venerable, in particular, has been an awesome investment but grew, I want to say, 16% to 20% last year. You just don't get a straight line. And Athora basically has been the same. It's been mid-teens rates of return and this year, it's up in the low single digits. So, you do get some lumpiness quarter-to-quarter over the strategic alts.

The other thing we're looking at is, and Martin mentioned this, you have a forward curve which talks about seven rate cuts. That is what we budget. And so, we basically are going into an environment where we think we're going to earn low double digits against the backdrop of seven rate cuts. While we have dramatically reduced our exposure to rates, we have not fully immunized our exposure to rates. So, that is a little bit of a headwind, and we're taking that into account when we're giving you guidance. Hopefully, that's helpful.

Operator: Thank you. Our next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Great. Good morning, everybody. So, Marc, private fixed income has been obviously a huge growth driver for Apollo over the last several years, and we've spoken extensively about that. More recently, I think you started to highlight opportunities you see to further expand Apollo's private equity capabilities. And I was hoping you could

spend a couple of minutes on what that could look like, sort of two, three years out. I'm assuming you're going to spend quite a bit of time at the Investor Day, but maybe a bit of a preview would be helpful.

And, I guess, looking at the more near-term opportunities, Fund X seems to be quite active as you highlighted. How does that inform your thinking about Fund XI? Thanks.

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

A

Okay. So, I'll do some of it and then Scott will pick up as he corrects or fills in for what I screw up. Let's start with this. Private equity is the traditional business on which the alternative asset management has been built. It is a 40-year old business. Over the last decade, in particular, call it 15 years, a lot of what has been produced was not the result of great investing, but as a result of [ph] 1 trillion in (32:46) money printing. Well, guess what? We stopped printing that magnitude of money, rates went up and lots of people in the industry mistook good performance for actually [ph] a beta bet (32:57).

We did not succumb to that. We are not facing the headwinds that the general private equity industry is facing. And what I wanted to do is really call it out. The benefit of purchase price matters is you get to be on offense. In markets like this, you get to produce good returns. I personally think this sets us up well for Fund XI. We have to deliver it, though. Scott, I'll leave it to Scott to speculate on timing and other things, but I'm feeling incredibly good about what the team is doing at private equity.

Fixed income replacement, which you also mentioned, is happening. And I want to distinguish that from what people normally call private credit. Most of the usage of the term private credit refers to below investment grade direct lending, which I actually think is a terrific business, but it is funded primarily out of the alternatives bucket as an alternative to equity allocations. What I'm talking about in fixed income replacement is primarily the replacement of public investment grade with private investment grade. I mean, think about Intel as an example. Intel has bank debt. Intel has public bonds. And now, Intel has \$11 billion of investment grade private credit.

The fact that there is a rating agency helps investors arbitrage as to whether they prefer to be in the bank debt, the public investment grade or the private IG. And the trends, if you think about where money is needed in the world, are the ones I cited. There are three really long-dated structured trends that are generally not appropriate for bank balance sheets. Some of it will go to the public markets, but an awful lot of it will go to the private marketplace and most of it is IG.

As an industry, we have basically built an entire industry out of the smallest bucket of our institutional clients. And what I was pointing out is that we as an industry and us in particular now have access to the next largest bucket, fixed income. We've never had access to it before. We're starting to get access to it. We will not be the only ones. But clearly, I believe that we are in the leading position to do this because we were forced to do it and have been doing it for 15 years for Athene and for the insurance industry. So, we've gotten a huge head start through the building of 16 platforms and everything else you know.

I am also pointing out that I believe we will, at some point, get access to the equity bucket of our institutional clients. 8,000 public companies is now 4,000 public companies. Most of our investors invest in public equities through indexation. 10 companies are 35% of the S&P, 4 companies determine 100% of their returns. I'm not sure that that's how they really thought their public equity portfolio is. 80% of companies, over \$100 million of revenue, are private. 80% of employment is private. I believe that we will see investors own equity that is private, which to me – in addition to owning private equity, the distinction being leverage.

What is private equity at the end of the day? It is equity with active management. In this case, active management defined as control of companies with leverage added to fit into a required high return of the alternatives bucket. Without the leverage, maybe the new form of active management is the active running of companies rather than the active buying and selling of stocks. We've built a business that we call hybrid. That is a \$50 billion-plus business for us today, and I believe on a percentage basis will be our fastest-growing business because the equity bucket is as yet untapped and it is the largest bucket of our institutional clients. The thing that's here and now, fixed income replacement. Thing that I think we look forward to, equity replacement.

Scott Martin Kleinman*Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.*

A

I think Marc said that well. Going back to your question around our private equity business, you're right, deployment is going very well there. As I alluded to in my comments, the market we're in right now is really the sweet spot for Apollo private equity deployment. And we see that continuing regardless of what the Fed may do in a quarter or two. So, as we look at just deployment pacing, I would expect by the end of next year that Fund X will be largely deployed and will be kicking off fundraise for Fund XI. So, that should give you a sense of the timeline there.

Operator: Thank you. Our next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt*Analyst, Autonomous Research US LP*

Q

Hey. Good morning, everyone. Marc, at a conference a couple of months ago, I think you hinted that a partnership like the KKR-Capital Group one is on the come with two hybrid illiquid/liquid products planned for launch this year. Do you have any update on the progress there and when you expect to actually have products like that in the market? Thank you.

Marc Jeffrey Rowan*Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.*

A

The answer is yes. I still am confident that that we are on track and you will see the first product in the market in Q3. And we're – I'm hoping the second product will be in the market in Q4. I'm going to give you a little – I'm going to answer more than you want because I think it's important to explain in the business. One of the things we have to decide as an industry is whether we are limited by origination capacity or not.

Historically, I have thought we've been a small – so, let's say this way. We've been a small industry. We've never thought about a limitation to our growth as the capacity to originate. We've always thought about money raising as the capacity to it. I believe as the firms have matured, the limitation to our growth is essentially our ability to originate really good assets. We're finding this in fixed income. Every really good asset we originate has a home. Okay, we did really well for the quarter. It was \$50 billion. That's great. We have to think about these partnerships as additive to our franchise, not in place of our franchise.

If I'm right, that origination is, in fact, the key limitation to growth. First, we have to scale origination as much as we can responsibly in the context of our culture. And second, we have to not get excited by the shiny dot of distributing to third parties and not getting full fees for assets we otherwise would want to get full fees from by sharing them. That is how we approach these partnerships. I think you will see not just the partnerships that I've alluded to, I think you will see lots of partnerships this year.

All of the big firms have a seat at the table and a right to participate in this because they originate somewhat uniquely. You are going to see lots of interesting alignments. If you think about what's happening in Asset Management more generally, active management, traditionally defined, has had a relatively tough decade. It has not outperformed the broader index for a very substantial portion of its time. Each of those active managers is undergoing their own strategy review. In some cases, they are buying alternative managers, and in other cases, they are partnering. This, to me, is one of the most exciting pieces of our business because we, as an industry, not just Apollo, we will reach family offices directly. It makes sense to cover them. They're just institutions.

We will reach really high net worth served by the global wealth systems and RIAs. We will not, as an industry, build the infrastructure required to reach the vast, vast majority of investors who are already well-served by traditional asset managers. I believe our role is, as Scott alluded to, to be a parts provider for those pieces of our product that we can originate and we like having [ph] the access (41:03). And to be a joint venture partner. And I can't tell you exactly how it is going to align, but it is one of the more interesting parts of our business right now and it is on track relative to my comments.

Operator: Thank you. Our next question comes from the line of Brennan Hawken with UBS. Please proceed with your question.

Brennan Hawken

Analyst, UBS Investment Bank

Q

Hi. Good morning. Thanks for taking my question. Marc, you spoke to lumpiness quarter-over-quarter in some of the strategic investments that you guys have in your alts business, which is totally understandable. But given these are strategic investments, I think it'd be really helpful to understand some of the sources of the weakness within these firms. And it hasn't really – it's my understanding that some of the weakness in those insurance properties earnings has not just been like a one- or two-quarter phenomenon, and actually that Catalina has been losing money. So, could you speak to what has caused the weakness? What is going to result in that weakness reversing, and whether or not there's any active efforts on behalf of Apollo and Athene to help to support those earnings going forward? Thank you.

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

A

Okay. Okay. So, this will be – I'm not going to use this call because it would take the whole call to go through it, but I will encourage Jim Belardi and team in their fixed income call to do a little more detail and really go through it, and get you what you need. But I think what we need to do is we need to look over a period of time.

Venerable has been an extraordinarily profitable investment. I don't have the stats in front of me, but by memory, it is like 20% return over a long period of time. The business has volatility and so we end up with very high returns in some quarter. There is nothing fundamentally wrong at Venerable. It's all doing great. Challenger, public company, had a big run up and then has been flat, but over time, has been just fine. Athora had a big run up and is now just flat, and has been fine over time.

Catalina, as you said, has been weak. Catalina is in the P&C close-out business. We decided that from a capital return, notwithstanding recent activity, we did not like both the long-term trends of that business. So, we are in the process of transitioning Catalina from its traditional business of old block P&C to simply being a sidecar for Athene. Catalina has a very attractive capital benefit for doing business in annuity through diversification benefits and otherwise. Catalina is a relatively small investment and you should expect Catalina to be wound down over the next two years.

If I step back, a little bit of what's going on here is a strategic – is a legacy from the point in time that Apollo and Athene were not fully aligned. When Athene was its own entity and Apollo on the third, it made sense that all the strategic stakes were held within the insurance company so that all the insurance company activity was held in a regulated entity. Since the merger, where now we own 100%, many of these stakes should probably have been held the same way we hold Motive or Sofinnova or something else as balance sheet investments of Apollo.

And so, what you're watching is a little bit in this quarter a frustration on our part because on the one hand, the vast majority of the alts portfolio is doing exactly what it's supposed to do. And you're watching the lumpiness in some of the strategic stakes. The only strategic stake that is not performing where it is, is Catalina and it's a relatively small stake, and it is in the process of transitioning its business. And that's what's going on at Catalina.

Operator: Thank you. Our next question comes from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler

Analyst, Bank of America

Q

Thanks. Good morning, everyone. I was actually just curious on the prepared comments that the liability outflows in retirement, I think, were going to stay elevated in the third quarter driven by funding agreements because in the fixed income presentation that you guys update every quarter, it looked like they'd be elevated in the second quarter, which they were, but they were going to step down in 3Q. So, I'm just wondering kind of why the difference.

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

A

I don't think there is a difference. I think you misheard. I think that we were saying that there is extraordinary levels of profitability associated with business that is terminating in the quarter rather than there will be deviations from the schedule. The schedule, as you know, we're pretty much on schedule and we expect to be on schedule.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

Yeah. It's – Craig, it's the run rate impact, principally. The reason we've been so transparent in publishing our expected future maturities across the portfolio is to provide that guide. And if you look at actual experience relative to expectations, it's right on top this quarter going back in time. And, obviously, we expect that to be the case going forward.

Operator: Thank you. Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. Thanks for taking the question. Just wanted to ask about Asia. I know that's come up on prior calls and conversations just as a meaningful opportunity set for you. I was hoping maybe you can update us on your initiatives overseas and Asia, remind us of your footprint there, how you see the opportunity set unfolding, which particular countries you're most excited about. And in particular, I'd just be curious for any update, color on what you see evolving in Japan and the opportunity there. Thank you.

Scott Martin Kleinman

Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.

A

Sure. Sure. It's Scott. Yeah. No. As we've alluded to in prior quarters, our Asia business continues to grow pretty substantially, albeit from a small base starting a couple of years ago. Today, we have close to a couple of hundred employees on the ground in Asia across a number of different countries and a number of different asset classes.

Just walking through, I would say from a PE perspective, we have really made a lot of progress in Japan. We've now announced and executed about four or five transactions over the last couple of years in Japan and have really established our presence there, most recently just the deal announced a couple of months ago. So, really like what we see from that market from a PE perspective. Other markets for PE, India and Australia, would be where we're focused for private equity.

Other things we're doing across Asia, we're building out our insurance capabilities. So, whether it's through flow agreements and reinsurance agreements in Japan, as you know, some stakes in companies in Australia and Hong Kong, we continue to penetrate there both on the liability side as well as asset management side for numerous Asian insurance companies that are looking for improved returns for their portfolios.

And then, on the credit side, we're continuing to scale really pan-Asia as a real opportunity. As Marc alluded to in his comments, just the need for a thoughtful, long-dated credit capital there is huge. And so, that business continues to scale.

So, overall, we're being very methodic, very true to the Apollo value orientation strategy, safe, secured strategy, but there's real opportunity when we continue to scale it. So, it's – right now, it's, call it, in the 5% to 10% of Apollo dollars. As Apollo continues to grow at the rates it's growing, that percentage will probably remain constant, but continue to grow dollar wise.

Operator: Thank you. Our next question comes from the line of Kenneth Worthington with JPMorgan. Please proceed with your question.

Alexander Bernstein

Analyst, JPMorgan Securities LLC

Q

Hi. This is Alex Bernstein on for Ken. Thanks so much for taking our questions. We wanted to double-click on the Intel transaction. You've obviously done other similar large-scale deals, some of the examples such as AT&T and Air France come to mind, but this one is obviously quite a bit bigger. So, I think we wanted to double-click and get a better understanding of how the transaction came together, how it may differ from some of the other ones, or what maybe some of the lessons learned from the prior ones be.

And then, from a P&L perspective, to what extent it flows through the 2Q results that you reported? Notably on the capital markets business side, if you can provide maybe a concept of just how big of the impact it was there, obviously record returns. And then, perhaps, what else we can look to expect from Q3 from this transaction? Thanks so much.

Scott Martin Kleinman

Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.

A

Yeah. So, to talk about the transaction, while you're right, Intel is a – is a bigger transaction than some of the previous ones we've announced. The way it comes together and the way it operates is actually very consistent

with how we approach this hybrid capital solution activity, right? It is – really, to serve these type of large, blue-chip companies, you really have to bring all the resources of the firm to bear from the relationships that may exist across the firm, whether it's private equity or credit or otherwise, our structuring capabilities, our underwriting capabilities, our syndication capabilities.

So, on a transaction like Intel, probably, if I had to guess, something like 50 different folks across the firm touched that transaction as it was coming together over a period of several months. So, these are not sort of desk trades, if you will, the way a small, middle-market private credit might happen. These are really big undertakings that only firms like Apollo with the breadth of capabilities and relationships could really do.

From a scale standpoint, while it was large, these are – given the magnitude of what's transpiring and whether it's the digital infrastructure build-out, the de-globalization and the amount of infrastructure that has to be rebuilt across the globe, the energy transition and all of the capital required there, this is becoming more the norm of the types of dialogues that we're having.

So, I think you're going to see more and more of this type of scale or potentially even larger. And so, again, only a very small number of firms can stand up and speak to that type of capital. And as you start to deal with companies like the ones you mentioned, right, counterparties matter. These are our highly structured transactions. What are, in essence, partnerships. And so, who these companies are partnering with to get these transactions done really, really matters.

Operator: Thank you. Our next question comes from the line of Bradley Hays with TD Cowen. Please proceed with your question.

Bradley Hays

Analyst, TD Securities (USA) LLC

Q

Hi. It's Bradley Hays on for Bill Katz. You spoke a bit about origination driving capital solution fees. Could you give us a bit more color on the step up in originations in the quarter and, in particular, how the non-US origination opportunity contributed to that and how we should be thinking about the [ph] go-forward/pipeline (53:30)?

Marc Jeffrey Rowan

Chief Executive Officer, Co-Founder & Director, Apollo Global Management, Inc.

A

So, I'll do a little bit and then I'll hand it over to Scott. So, if you think about what we've done and you think about the world, we've done something for Sony. We've now told corporate Japan that this is an opportunity. AB InBev, we've now told corporate Europe or Northern Europe, we're open for business. Air France, we've now told France we're open for business. Vonovia, Germany, told them we're open for business. Intel, we told technology and next generation infrastructure, we're open for business. AT&T, open for business.

What's happening is we are creating and watching the creation of a new market. New market is being created not just on the investor side, where investors are actually considering fixed income replacement, it is happening on the issuer side. Rather than the issuer having a choice between bank debt and [ph] ten-year (54:27) corporate bonds, the issuer now just has a third choice.

We will not do every transaction, but the point is, in the scale of the opportunity relative to the size of our business, we are watching accelerating growth. It will always be lumpy. You will always get the one big one in the quarter. But as a build and as a general trend line, we are watching private, as a solution for capital needs, take hold. And I like the way the strategy is shaping up.

Governments around the world are going to borrow an awful lot of money over the next 10 years. We are going to have crowding. Banks are being asked directly or indirectly to stick to that, which is more match to the shorter term funding base. And they are generally not the right home for really long-dated capital. That leaves only two choices because capital – credit in our economy comes from only two places. It comes from the banking system or the investment marketplace.

In the investment marketplace, it can come from the public daily liquid market or it can come from the private match-funded market. Not everything is going to end up in the private match-funded market, but an awful lot is going to, particularly given the three big drivers of capital.

Scott Martin Kleinman

Co-President-Apollo Asset Management & Director, Apollo Global Management, Inc.

A

Yeah. And just to your specific question, I mean, it should come as no surprise. For the last two years, we've been talking about how the single most important thing we've been doing is scaling our origination capabilities in breadth, in geography, in category. And that's exactly what we have been doing. And a offshoot or ancillary item to origination is ACS. And some of the excess that we don't consume across our controlled balance sheets go through that, go through that ACS system. And so, we've similarly been building our capabilities there.

If you look at our ACS P&L, it's represented by literally hundreds of transactions. As Marc alluded to, once a quarter there, one or two big ones, but the vast majority of what's flowing through that are just smaller trades that build up to the – build up to where our quarterly earning there. And that's what you're seeing. We continue to invest in both the origination and the ACS side of our business and we'll continue to invest in those areas because that really is the engine room, if you will, of everything else that we're talking about on the Apollo platform.

Operator: Thank you. Our final question will come from the line of Ben Budish with Barclays. Please proceed with your question.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning and thanks for fitting me in here at the end. I wanted to just ask on the capital markets fees. You alluded to a very strong back half of the year. I don't know if it's too early to ask, but any color on what 2025 looks like? I don't know if the pipeline kind of stretches out that far. And, I guess, what I'm trying to get a sense of or a better understanding of is to what degree does the back half of this year look like, an explosion of sort of pent-up demand versus a return to normal, and what that might mean for the fiscal 2025. Thank you.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

Ben, it's Martin. So, the visible pipeline of business is about two quarters ahead, which you would probably expect. The business continues to grow. We're building our capabilities, geographies, awareness around the products, and aligning the sort of supply, if you like, with demand for that. And as you recall, from the origination and platform sort of spotlight day we did almost a year ago, there are multiple homes for everything we originate, part goes to Athene, to its investment grade portfolio, part goes to third-party LPs through funds or managed accounts for which we earn a management fee. And part goes to capital solutions for which we earn a transaction fee.

So, that makes that sort of equilibrium, if you like, holds. And as we grow the supply side, we can grow the demand side. But we would expect the business to continue ramping from here, to answer your question briefly. It's an ecosystem. We have an advantage. It continues to build. And we're very enthusiastic about the growth from here.

Operator: Thank you. That concludes the Q&A portion of today's call. I will now return the floor to Noah Gunn for any additional or closing comments.

Noah Gunn

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

Great. Thanks again for joining our call this morning. As usual, if you have any questions about anything we discussed on the call, feel free to follow up with us and we look forward to hosting you and are excited for you to join us for our Investor Day on October 1. Thank you.

Operator: Thank you. That does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.