APOLLO

Apollo Global Management, Inc. | Bernstein 39th Annual Strategic Decisions Conference | June 1, 2023

Patrick Davitt, US Asset Manager Analyst, Autonomous: Good morning. My name is Patrick Davitt. I'm the US Asset Manager Analyst here at Autonomous. And as a reminder, if you want to use Pigeonhole to ask some questions, you can do that now and I'll get it on the iPad here. But we might have some time at the end for live audience questions as well. It's my pleasure to welcome Apollo CEO, Marc Rowan. Thanks for joining us.

Marc Rowan, CEO, Apollo: Always a pleasure.

Patrick Davitt: Cool. I'm starting every conversation here with a macro question since we have most of the large CEOs. Given everything that's going on in the world and your position as one of the largest owners of assets in the world, what is your outlook for inflation rates and the economy, given the fear that the Fed's probably going to have to cause a recession to tackle inflation?

Marc Rowan: I've been relatively public talking about this notion of a non-recession recession. And what I mean by that is all of us in this room are going to feel a recession because we basically were the beneficiaries of a decade of money printing to the tune of 8 trillion. And we were the primary beneficiaries of rates going from high to low.

I mean, real estate went up, stocks went up, bonds went up, wine went up, car went up. If you could go up, it went up. Well, guess what? It's now just coming down. And so, I ask people who work in our firm and even sophisticated outside managers, are value's low today? No. Are rates high today? No. Our spreads wide today? No. Is liquidity low today?

Fundamentally, we're in a normal period of time. And what was abnormal is what happened over the past 10 years. And yet mentally, our customers, others are still anchored to what was, not what is. On the other hand, we are going to have a recession, to the extent it means two quarters of negative growth. We're already seeing it in a slowdown this year. But let's remember when we look at numbers, they're nominal numbers.

If the Fed takes inflation from eight to five, we're down three. That just the way the math works. It's no different than that. But it is very difficult for us to see a recession from 3.4% unemployment, from strong wage gains, from a tight labor market, where there's enough demand destruction to because a good old-fashioned style recession. Thus non-recession recession. I think we will get the two negative quarters, but I don't see the demand destruction of a scale that will matter, at least in the US.

Patrick Davitt: Makes sense. Thanks. It's been a year since you closed the merger with Athene. Do you have any anecdotes you can share around the combination driving synergies or eliminating friction that you wouldn't have seen before the merger?

Marc Rowan: Well, I have an hour back every day, so I know that's a good thing. But look, the stories are all over the place because if you think about the bet that we have made as a firm. And I'll step back a little bit. If you think about our industry in 2008, everyone in our industry was roughly the same size. We were all 40 billion of AUM, 30 billion of private equity and 10 billion of something else. And then the world changed. 2008 we had a financial crisis, but it also opened up immense opportunity and created these tailwinds.

And every one of the big firms made a different bet. Some bet on real estate, some bet on infrastructure, some bet on subordinated debt and BDCs. And we made a bet on private investment grade. If you think about what we were doing, we were basically betting that Athene's need for highly rated, but yield ease securities was going to translate into the need, not just of other insurers and other banks and other sovereigns, but retail more generally that everyone was going to need excess return per unit of risk.

And by and large, that has played out. And so, Athene has been the anchor to a strategy of growing this business because Athene wants 25% of everything and 100% of nothing. But having an anchor of 25% of everything has been key to the business. The ancillary benefits or the things that we did not anticipate was the notion of alignment and how we're positioned in the market. We go to market with three simple things. We go on our strategy, which is purchase price matters. We're a value oriented firm in equity. And in credit, we want to be top of the capital structure, senior secured, floating rate.

We go, we believe and we tell our clients we're in the business of excess return per unit of risk. But we as an industry are in the process of building trust with clients. That doesn't mean we don't have trust with who we've done business with, but we are being introduced to whole new marketplace where we sound very important to ourselves. But they don't really know what an Apollo, a KKR, a Blackstone, anyone else does.

And so, in the place of trust, we sell alignment. The notion that we, if you look at our 600 billion of AUM, Athene and Athora are 300 billion of the 600 billion. Means we're the largest investor in every product all the time. And that protects investors because we get the same outcome they do. This notion of alignment, particularly in a volatile market to me is just overwhelmingly important and has been one of the key features differentiating our platform versus anyone else's platform.

Patrick Davitt: Great. That's a good segue to private credit, which has obviously been a big driver of your growth and some of the other alts as well. But there's still a view in the market, which I'm sure is frustrating to you that there's some systemic risk concentrated in this asset class. And it's been hard for us to push back on until it's really tested.

But since your portfolio is more investment grade, I think you've been more comfortable suggesting there could be more losses in traditional high yield or investment grade, single name securities than unrated private credit. What's your view of this fear that there's all this risk hiding in private credit? Maybe update us on the risk you're seeing in the more traditional credit budget?

Marc Rowan: Sure. The financial journalists, the literature has gotten relatively sloppy with the term private credit. I have no idea. It sounds like something that means something. It doesn't actually mean [inaudible], private and credit. Well, what does that actually mean?

For the most part, when people talk about private credit, they're talking about direct lending, sometimes called origination. But really what it is levered lending to transactions. It's a single B-rated activity, it is a risky activity. And in some markets, it's a good activity. In some markets it's not a good activity.

At the moment because of the absence of competition and because of the pullback of the banking system, it happens to be a good activity because you can underwrite with a negative mentality, assuming bad things are going to happen. You can build in contractual and other protections into your documentation. You can get paid widespread for doing it. And for a period of time, a year, 18 months, I believe this will continue to be a very good business.

But that is not a systemic change in the market, which is what I think your question was going to. I started again back in 2008. And I think about the piece of legislation in the US that came out of the financial crisis, Dodd-Frank. The purpose of Dodd-Frank, among other things was to constrain the market power of big banks in the US.

Well, guess what? Dodd-Frank worked. The banking system is less than 20% of investment capital, debt capital today for the US markets. It's 65% in Europe, it's 85% in Asia. The new banks are all of you. You are the new banks. And you are the new banks through mutual funds, you're the new banks through ETFs, you're the new banks through securitization market and otherwise.

We are also a beneficiary of this de-banking of the world because the assets that we need were that we needed in 2008 to power our retirement services businesses were the kinds of things that used to go onto the balance sheets of banks. Investment grade private credit. Well, private credit can also be investment grade, it can be AA, it can be single A.

And so, you look at our business at the end of the first quarter, we were 450 billion of private credit. Largest private credit business out there. But in the scheme of the world, not relevant. And I think that's the best news ever. We're in a market that's really large where we're perceived as a large player. Where our primary competitors, the banking system, don't care about what we do.

And they don't care in part because 450 billion is not relevant in the scheme of the marketplace. And they don't care in part because we are not an actual competitor to them, meaning we don't actually want their client, we just want the asset because we can't serve their client. We can't cross-sell, we can't sell any other products. Whereas the banking system ironically, wants the client and the fee, they don't want the asset. We're actually very compatible with the banking system.

Now you look at where the world is, the world's gone from robust growth to concerns about recession. The world's gone from low interest rates to high interest rates. And we're concerned about all manner of things. Okay, where do you want to be? I want to be top of the capital structure, senior secured floating rate.

And I think if you look at where the marketplace is, America banks primarily in the securitization market. The history of securitization, whether it is CLO or ABS, is if you look at what happened between 2000 and 2008, CLOs and ABS rated investment grade outperformed IG at the comparable peer. From a default point of view, not from return.

In 2008 there was a change because CDOs, CDO squared and all manner of securitization was a proximate cause of the crisis. The securitization market got much tougher, including for CLOs and ABS. Everything post-2008 actually is structurally better than pre. Whereas some studies suggest that 35% of the IG market today, corporate IG, would not actually be IG under 2008 standards.

Corporate's gotten worse, structure's gotten better. And for the years 2008 to 2022, which is the last time we have data, ABS and CLO have outperformed. I think this is the future we believe, and we say publicly structured product at the same investment level now is a safer credit risk than standalone IG at the same credit level.

And it just makes sense. I mean, think about the world we're in. Fast change in technology, fast change in business models, change in commodity prices, change in consumer preferences has created an increased incidence of single company accidents. Credit Suisse, SVB, stuff happens, whereas the benefit of a securitization is diversification.

Patrick Davitt: That makes sense. Another I think confusion that's out there is this idea that private credit, because it's floating rate, will suddenly have lower demand if rates are going down or the Fed has to cut. I know you don't have that view, but what is the pitch for private credit in the world where rates are going down? If the pitch last year was...

Marc Rowan: It doesn't matter. People are maniacally on fixed versus floating. The reality is the ability to swap between fixed and floating is of infinite choice. If you have a bet on interest rates and you are a borrower, you can swap anytime you want. The same as if you're an issuer or if you're a buyer of it. We had for a long time in an era of low rates maintained a net 30 billion floating position. It's still a net floating position, but it's probably half that today.

Patrick Davitt: Interesting. One of the big, I guess, incremental takeaways from the one Q earnings call is this idea that ABS and ABS origination are going to be the big net beneficiaries from the bank failures. And that's a core of your strategy obviously. I think we have a lot of investors that are probably new to your story here. Maybe reiterate the basics of this direct origination insurance strategy and how it ties to your retirement services business.

Marc Rowan: Okay. In two minutes or less? It needs a little background. In 2008, we started a retirement services business. We put 16 million into an insurance company called Athene and began growing the business. That business and its European peer were 350 billion at the end of the first quarter. The business is an insurance company, but it offers no insurance. It does not insure your life. It does not insure your health. It does not insure your property. The only thing it insures is your retirement through pensions and annuities. So the way we make money is we make money as by having a higher return on our assets than we pay out on liabilities on our

OpEx and we earn spread. Over the past 14 years, we've earned about 17% cash on cash annually, so we're earning a lot of spread.

To be highly rated and to get big, you have to be safe. So we are 95% fixed income, of which 95% is investment grade and 5% equity, of which 95% of that equity is hybrid equity rather than private equity in a traditional sense. We're A plus rated by all three agencies. We hold a billion in excess in AA capital. We're on our way to AA entity. We organically originate 60 billion a year, which is number one in the US market, larger than MET, larger than Pru, larger than Alliance. The business will be, on the current trajectory, north of half a trillion dollars over the next couple years.

That business needs highly rated yieldy credit every day. We as a firm believe not just today but for the past 20 years, is that publicly traded fixed income and broadly syndicated fixed income is devoid of alpha. It's a hundred percent beta. The reason we know it's a hundred percent beta is you can buy it for near nothing, in terms of basis points and 90 plus percent of active managers have failed to beat the index for more than 20 years. So if you need highly rated yieldy credit and you can't get it in the public market, you have to create it yourself.

So we began creating highly rated yieldy credit for the sole benefit of Athene 10, 12 years ago. That was primarily initially a calling effort, so we lent $4 billion Anheuser-Busch, we lent a billion dollars to Air France twice. We lend 2.75 billion to Abu Dhabi National Oil Company. We are offering them something that is not competitive with what they can get in the 10 year investment grade bond market, otherwise they would clearly go there. Through structure, direct origination, and giving the borrower a firm deal, we have been able to earn two to 300 basis points in excess of the comparably rated public IG.

We have also built 16 platforms. The best illustration of a platform is if you think about what GE Capital was before they lost their mind, that's what we look like today. We own a fleet finance business called Wheels Donlen. We own an aviation finance business. We own the formerly Credit Suisse, Securitized Products Group, which is now called Atlas, and so on and so on. Every day, thousands of people who work in these platforms, which are generally a hundred percent owned by our system, create credit. Out of that credit, we now are in a position where we not just meet Athene's needs, we meet the market's needs.

So Athene wants 25% of everything and a hundred percent of nothing. So Athene takes 25% generally share of a deal. We then have built a series of SMAs and accounts and funds initially from other insurers and later from Sovereign Wealth Funds and others, and now from high net worth who invest side by side with Athene. Then what we don't have demand for, we syndicate. So this notion of origination is actually fundamental to our platform and we can only grow as fast as we can originate. While everyone else has been focused on putting out growth equity or whatever the flavor of the day is, we've been quietly working in the back room and have spent somewhere between six and 8 billion dollars building origination. These platforms are tremendously important to what we do.

Patrick Davitt: So you mentioned the Credit Suisse deal. I think clearly you're originating more than your internal annuity growth needs, so third party insurance is increasingly a part of the story. So do you think that's more of a syndication fee opportunity or do you see more capital formation around non-internal insurance client AUM?

Marc Rowan: It's both. What's been interesting is the largest clients of our business and our massive management clients, fee clients, are competitive insurers to Athene. Then we have spent 10 to 12 years understanding what it means to put something on a regulated balance sheet, whether the regulatory regime is RBC in the US or it is Solvency II in Europe, and we've continued to grow and scale that business. What's interesting about an investment grade mandate versus a non-IG mandate, they're billion dollars at a time. It's not unusual to have a billion or 2 billion or 3 billion, and so the business is growing pretty quickly. We will see real growth, as I've already said, publicly in the coming quarter in this business.

I think financial institutions around the world who have lived through years of interest rate repression, but have not been able to source this on their own, have opened the spigot to basically look for yield and we have been a beneficiary of that, particularly as we've scaled our origination. Now, we also currently originate in excess of asset management demand, which allows us to syndicate, Syndication is both a fee opportunity, but syndication for us is also the primary way we meet a new client. A new client buys two or three things from us on syndication and then turns into an SMA.

Patrick Davitt: Got it. So it sounds like there's a perception I think with a lot of people I talk to that, because of your ownership of Athene, the third party insurance opportunity will be more difficult, because they view you as a competitor. Clearly, it sounds like that's not the case.

Marc Rowan: Actually, it's a funny thing. Because our business, if you think about 600 billion of AUM, 525 billion of it is partner oriented, third party capital markets where we want 25% of everything at a hundred percent of nothing. Then 75 billion of it is classic private equity, which is zero sum, someone wins, someone loses. Not only are we prepared to syndicate assets side by side with competitive insurers, we actually are prepared to sell them part ownership of these platforms heads up. They're not in a fund. So we have in, for instance, our fleet leasing business, it's owned in part by someone people would say would be our largest competitor. Credit Suisse, the new Atlas business, while we own a hundred percent of it today, I would bet six months from now will be 50% of it and it will be owned by many of our largest competitors. Just like we want 25% of everything and a hundred percent of nothing on the asset side, the same is true on the platform side. It just doesn't matter. If we take 25% and they take 4%, we're not changing the competitive balance.

Patrick Davitt: I have a question from the audience in on the origination point. Why would one of these issuers come to Apollo instead of the public markets, if you charge a two to 300 basis point premium? What do you think justifies that?

Marc Rowan: So I'd say, first I'll give you some examples, but we generally get paid for three things. First, if you look at 2022, it's the last time I have data, in this part of the market, 56 billion of fees were paid to the street. First is we're doing it direct. We're keeping the fee in the deal. The second is issuers are paying for certainty of execution rather than for marketing and whatever is determined. The primary thing that an issuer is buying is they're buying something they can't get in the IG market. If they can get in the IG market and want to do it, they should will always do that because that is less expensive.

So I'll give you one example from history and one example from two weeks ago. From history, Anheuser-Busch drops their bottling plants into a subsidiary. They agree that they will take or pay bottles if they're in the beer business, which I know is not as good with Bud Light right now, but that's a whole nother issue. Out of that cash flow from the bottling business, we structure AAAs, AAs, As, BBBs in equity. Anheuser-Busch does this to create a financing that is not competitive with the 10 year bond deal that they're going to do two weeks later. They want longer term or some other feature in the deal, 300 to 400 basis points over Anheuser Busch's borrowing rate for certainty, for structure, for illiquidity. For us, 4.4 billion investment grade deal of which we took a quarter and syndicated the rest to clients. Really marquee deal for what we did.

So right now, and then I go back two weeks ago, and my team will correct me if I mispronounce, but we have a German real estate entity called Vonovia. People are panicked over public real estate. Everyone has sold off public real estate stocks and everything else. We lent them a billion dollars at BBB rated S&P. I think our S&P at Moody's, I want to say somewhere between eight and 9% dollars secured by a handpicked portfolio of their rental real estate in Berlin. Essentially opening the market for them to refinance maturities elsewhere and not having to compete with negative sentiment across the entirety of the IG space. Though on the back of this financing, they'll probably be able to solve other capital structure issues around their portfolio.

This is ability to do these bespoke corporate deals is a piece of what we do. It is not all that we do. The vast majority of what we do comes off the platforms and the platforms are simply aggregation of risk every single day. When we get to critical mass, we'll securitize or directly place.

Patrick Davitt: This is another one from the audience. If credit origination continues to move from banks to alts, what do you think the implications are for broader credit availability given the alts probably have a lower base of capital to step in with?

Marc Rowan: Well, I come at it this way, credit avail. Credit demand in an economy is driven by GDP. Once you have an aggregate amount of demand for credit, regulatory, government and financial markets determine how that's allocated. In 2008, the US regulatory system had a choice. They could have that credit supplied by government backed guaranteed banks or they could have it supplied by the investment marketplace, and they elected to have it supplied by the investment marketplace. This is not the choice that Europe made and it is not the choice that Asia made, and I think both are suffering for different reasons and I'll come to that.

So we already are in a situation where 80% of credit is provided by the investment marketplace. So we've just had the phase one in my view of a regional banking crisis. And the most important thing we've taken out of a regional banking crisis is a little bit like the first election we had with social media. We had no idea what was going to happen and we got a surprise. Well, guess what? We just got a surprise, because 42 billion left SVB in four hours without a line.

Okay, so now you fast forward and I make you CEO of a big regional bank. Congratulations. Your cost of deposits has always been high and it's now higher than your competitors. Your cost of debt and equity is astronomically high. Your regulatory costs are going up, whether or not there's regulatory change, but the most important decision you have to make is are your deposits sticky? You have no idea, because you are out in business and let's say we get higher government guarantees. Great. You're offering your depositors two and a half percent. This gentleman forms another regional bank and he offers his depositors three. I'm going like this. What do I care? Government guaranteed.

Once you conclude your deposits are not sticky or not as sticky, you can't be as big a balance sheet lender. You are going to reduce your risk appetite for loans on your balance sheet. You will seek partners in the financial system and those partnerships have already been developed. It is not the province of any one company. This has been going on for 10 years. Now, we have any number of them. It is not "new news". This is what we've been doing in the shadows literally for 10 years, building the business as opposed to a new discovery. In Europe, I think we're going to get the same thing. Those

Marc Rowan: Who follow European banking, people are talking about the system moving to Basel III. Well, Basel III is a little bit like the regulatory regime that the capital regime that the big banks in the U.S. live in. Assets don't work on Basel III balance sheets. And so Europe will eventually need to make a choice as to whether to reduce or change capital requirements or accept a more market-based system. But right now we are living alongside the banking system in a privileged position where we are entrepreneurial.

We're a big player, but with a very small market share. And we're a preferred employer. And I'll just give you an analogy, I sent one of our most senior partners to Asia to build a business and I said, "My view, Asia does not need another equity opportunity fund." But in Asia, there's no capital market. There's nothing between the bank and equity. Your job and success is going to be to take bank market share from 85% to 84%. That's all you need to do. Those are big businesses and I like these massively large markets, top of the capital structure, senior secured, little risk to principle, playing I.G. Coming back to what we offer clients, we offer clients excess return per unit of risk and we don't just offer it in the private equity area, we offer it at investment grade.

Patrick Davitt: That's a good segue, sounds like there's a lot of good trends working in your favor right now. So I think that's a good segue to the broader fundraising environment. Your messaging on the one-Q. call was probably the best of all the asset managers this earning season. And you suggested that two-Q. could actually be a near record for the firm, which is a huge divergence from what we heard from most of the others. So what is it about your business mix that you think is insulating you from the slowing fundraising we're hearing about from some of the other alternative [inaudible]?

Marc Rowan: Look, I'll come back to strategy, but I'll also point out where we are in the cycle. We are purchase price matters, excess return per unit of risk, aligned investing. That is our positioning in the market. So I now look at the opportunity set that's available. Private credit, using that term, whether you're talking about levered lending or you're talking about IG, is at a really interesting entry point because of what's happened in the disruption in funding markets and because you have higher base rates. Higher base rates actually take money from other asset classes and allow investors to allocate more of their money to fixed income, because for the most part, our investors are amortizing liabilities that are not inflation adjusted. Higher base rates work for our client base and we will see more demand. So we are a big player. The big pools of money are actually IG, not, and we're going through fundamental change.

People used to think of their fixed income portfolio as fixed income and then alternative. I actually think people are starting to think about their fixed income portfolio as alpha and beta. And I ask really simple questions, like is a single A rated private asset an alternative? I have no idea and I'm not sure I care. But it points out the conundrum. We think of alternatives as this little asset class of private equity and hedge funds and venture capital. It actually is just an alternative to publicly traded stocks and bonds. And the whole universe of investment products is available to us in alternative format, but we've historically chosen, as an industry, to compete in this little narrow slot. And what we've been doing for the last 10 years is competing at this big slot and no one's cared. Well guess what? They care right now.

Then, I look at the next asset class down, which is hybrid. And hybrid is the midpoint of debt and equity. It's about a $75 billion business for us. It's going to double over the next five years. It is the least efficient asset class on the planet because institutions primarily allocate two traditional alternatives for rate of return. They use their overall strategic asset allocation to balance risk and reward, so they tend not to choose risk adjusted returns in their alternative bucket. They don't have a hybrid bucket is what I'm saying. So there's been no capital to hybrid.

Public market investors want liquidity, so they don't have any capital for hybrid. The lack of capital for hybrid for the last 12 years has made it the best risk reward in the investment marketplace, which is why our principle capital has gone into hybrid. Mid-teens rates of return, low risk of downside, lots of protection. And then I come to equity and if you think about what's happened in private equity, we as an industry are due for our reckoning because 60% of the money that went into private equity actually didn't go into things that people think private equity went into growth. And in a period of interest rates going from high to low, in a period of liquidity being just printed, that was fine.

Most of our industry is playing defense today. Institutions in our industry have a very hard time playing defense and offense at the same time. Purchase price matters is actually a good place to be. My joke was I was out at the milking conference and I did a few other conferences, I didn't have to make a single apology for a whole week and I was like, "This is great." From a peer group, we're on offense. We've put 30% of fund 10 to work already. And so in all three businesses it just feels like a good time. Plus the annuity business, through Athene, is as an industry issuing at record levels because consumers prefer 5% to 3%, or 2% or 1%.

Yeah. So it's going to be a good year.

Patrick Davitt: So obviously the strong core growth that Athene and annuities is part of this strong outlook, and there's obviously a lot of noise out there about lapses and confusion and I think you've done a good job of addressing that. But what do you think makes this environment the golden age for that annuity growth and how is it being best positioned to capitalize on this period?

Marc Rowan: So I'd say the following, if I described an industry to you that benefits from the aging of the population, that benefits from the need for retirement income and the inability of governments around the world to provide that or corporations to provide it, you would think I was into growth and business. But if you look at our industry, whether you talk about the U.S. or Europe, and you look at the publicly traded companies who've been in this industry for a long time, over the 10 years prior to this year, they've basically raised zero capital. In fact, they've returned almost a hundred percent of their market caps through dividends, because in my view, investors don't trust them. Because what's happened is, over a decade, they have veered off into other things like variable annuities, like long-term care, like mortality bets that have basically destroyed massive amounts of capital.

And what we've done is we've come in, we've raised 16 billion of De Novo capital, which is now 30 billion of capital because we've doubled it over time, and we've gone from a startup to 350 billion, in one product doing, one thing, simple. And we've built the asset origination system to support the liability growth. And so I look at where we are, I think we're in a growth industry. Rates will definitely play a part in how fast it grows one way or another. But the trend from defined benefit to defined contribution and the trend toward retirees needing income, whether it's in the U.S. Or Europe, we are in the path of demand. And we're in an industry of have-nots, and it is difficult to go from startup to where we are because we came through a really interesting period of time.

We were the only ones doing it. Spreads were wide, rates were low, we were able to get to scale inorganically and then become the largest organic issuer. You look at what's happening today, there is almost no ability for these companies to get to scale with the... And in our industry, with the exception of the gentleman who was up here before me, they're the only other ones who are going to get to scale. They run a proper business. Everyone else is finding themselves trying to buy inorganic deals, and I'll belabor this for one sec because I think it's important to understand. When we and KKR were building our businesses, rates were really low and contract rates to the consumer were high. When you buy someone else's block of business, it does not have surrender charges or market value adjustments to the same degree as a new business. So you are taking risk, but the risk is mitigated if rates are low and consumers are getting a benefit, they don't surrender those.

You think about the world today is rates are high and contract rates are low, and you're locking people in through surrender charges. So inorganic blocks of business are not that attractive. And yet because there are a hundred asset managers who are trying to do what we've done, the price paid for inorganic blocks of business now far exceeds the price for organic blocks of business, because they can't issue organically. They haven't done what we've done, which has built the systems, the ratings and everything else.

So we haven't done an inorganic deal in about three years, and I don't think we're going to until this trend mitigates, and I think most of these people are not going to get to scale. So we have public companies that can't raise capital, and that have not done a good job. We have private competitors who are not at scale and we find ourselves with the most capital in the industry, having gone to number one market share with a simple product line, with an asset origination capability, and we're plenty large. We're not going to have much more market share, we're not going to do a hundred percent of anything. We're very happy with how things are going and the team is doing a really good job.

Patrick Davitt: Something that dovetails nicely with the retail opportunity, which everyone here is obviously talking about, I feel like Apollo has some more interesting unique products versus the others that investors are having a hard time getting their head around. So how would you contrast how Apollo is tackling this market? And maybe give us a little bit of quick color on the unique products you're building like AAA and Altitude.

Marc Rowan: So we as an industry have served an institutional clientele for 35 years. What's interesting about that clientele is they don't pay taxes because they're sovereign wealth funds, pension funds, charitable endowments and such. We've never been tax sensitive as an industry. And historically institutions had preferred fee product and retail did not. Okay, so where are we today as an industry? We're in inning one because we still primarily offer retail, REITs, BDCs, and private funds. Now we've improved the product because you can access these products in a technologically sophisticated way. The fee structures have come more toward institutional, but we as an industry have not made all that much progress. So we step back and we look at the industry and we want to be the innovator in this industry, and that's the position we've staked out. So to be the innovator, we have to solve problems that currently exist.

First problem is taxes. You own a BDC and you live in New York, you're getting an 8% dividend at your BDC, you're experiencing that at 3.8. I'm not sure that's actually a great deal versus municipals, to be candid. So let's wrap that product in an annuity. Let's not put any restrictions on that annuity other than the underlying restrictions of the BDC. And let's charge 30 basis points for administration and let someone experience 8% at 7.7%. And then in their estate plan, roll this into their estate plan, better yet, let's create an entire ecosystem so someone can live in this product their whole life. When they don't like BDCs, they can move to private equity. When they don't like private equity, they can move to money market, they can move to investment grade yield and let's create an entire ecosystem that supports what they want to do without putting restrictions on the client. And that's what Altitude is, and that is launched...

We will be my gut, half a billion dollars by June, plus-minus, and we will continue to build from there because we are in the education business right now. I find myself doing lots of this.

The second is, investment in alternatives is really hard even for a really high net worth investor. A traditional alternative. You have J Curve,

Marc Rowan: You have diversification, you have two layers of fees, you have capital calls, you have other things. And so what we've tried to do is to simplify that. So I recall in the story I was telling you about Athene that 5% of Athene's portfolio is in equity. Well, that 5% of just the US balance sheet is now a little over $10 billion. We took all $10 billion and we dropped it down into a vehicle, which we call Apollo Aligned Alternatives, and we allow investors to come in side by side with Athene now and in the future. Athene is growing about billion and a half to two billion a year in alternative, so we will be 20 billion over the next five years.

High net worth investors get to come in side by side with us in the same vehicle, in the same share class with no two levels of fees, complete diversification by vintage to complete diversification by product, complete alignment. They know that we will not scale the vehicle inappropriately because we are always the largest investor in this product. They know we will not spike origination at a point in time because we are always the investor in this product. We are locked up for five years. We manage all the capital calls. So they have one call over and done.

They have 5% liquidity a quarter, which is fine with us because we are growing a billion and a half to $2 billion a year and it's not a big deal. We thought this was going to be for high net worth and it is. Along the way, we've attracted two and a half billion of institutional solving exactly the same issues for institution. This is the kind of product which you can either look at as a core of an alternatives portfolio around which investors will do technology in China and growth and something else, or you can actually look at this product as a replacement for S&P 500.

This whole notion of thinking of not just fixed income as alpha and beta, but thinking of equity as alpha and beta. And we're seeing both use cases and the product is scaling nicely and we're open on a number of distribution systems for the high net worth marketplace and opening more, but scaling it in a measured way.

Patrick Davitt: So this all leads into kind of the growth targets, which I think your growth target for the year is 25% for your earnings growth, which could be the best of the group depending on how some of the others shake out. And you're seemingly more confident in this over since the beginning of the year despite the volatility. So firstly, what do you see as the key building blocks to that confidence? And secondly, do you think this is a baseline of growth that you can outperform meaningfully given how punchy it is?

Marc Rowan: So I don't know about the second. But what I'd say is the first, we came in and we've told a different story on our industry. As an industry, we're growing. Private capital is growing at the expense of public capital. We can debate how fast and in what products and in what time period, but we are growing faster. But we are limited in our growth as an industry by our capacity to generate assets that deliver excess return per unit of risk. Otherwise, we just elude our businesses. So we are limited in our growth.

We've picked markets that are really large and what we've said to the street and we've said to all of you is that we will double our business over a five-year period and that doubling will come from a doubling of a business that can easily be doubled. Private credit, primarily because of our position, a doubling of our hybrid business, which is small to start and growth, but not spectacular growth in our equity business because we believe equity to be a mature product. We are simply executing the plan. To get there, we laid out three things we needed to do.

We needed to build syndication. We thought we were going to get to 500 million of revenues at the end of five years. I think we're going to get there this year or next year at the latest. We said 50 billion of total assets from high net worth retail over five years. I think we're going to be way early on that, and we needed to get to 150 billion of annual run rate of origination with the

Credit Suisse acquisition of securitized products. We're there on that. So we have all the building blocks in place.

We're coming on a good time for the private credit product set as well as for purchase price matters across our platform. We're simply executing the plan and we're not apologizing for things we did over the past decade because going from high to low and printing $8 trillion has obscured a lot of sins and people are now paying for that. I think we're going to see franchises that did not adhere to excess return per unit of risk really take a step back as investors lose confidence in them, particularly as markets correct. So I like what we're doing.

I like the strategy we've picked. We've said that this is a fast-growing industry, but it cannot grow to the sky. It has to be excess return per unit of risk. Otherwise, people should be liquid. They shouldn't lock up with us and culture hugely important. We can't grow so fast that we change the culture of the place and become that which we are not, which we benefit right now as an employer where people are leaving 50 and 100,000 person organizations for 2,500 person Apollo. Okay. We want to feel like a partnership five years from now, not just today.

And so we're going to deliver our plan plus a little. We're going to like who we are at the end of five years. We're going to create a sustainable franchise, and I think we're well on the way to doing it and '23 is a good pivot year and a good chance as Buffet and Monger say to see who's swimming naked.

Patrick Davitt: We're all trying to figure out who that is. So it's great growth outlook, obviously. I'm sure you're frustrated with the valuation of the stock through that lens as it appears to have defaulted really to a multiple more like insurance companies than an asset manager. So in that vein, I think there's a view in the marketplace that spread earnings are inherently low multiple, and when you look at comparable streams, kind of have always been low multiple. So why do you think your framework should be treated differently by investors?

Marc Rowan: Well, I'd say the following. First, I actually am not frustrated at all.

Patrick Davitt: Okay.

Marc Rowan: We will deliver the plan and my view is we will eventually see that in the marketplace or we'll continue to buy in the stock over time, but we're running the business we're running. The second is I think that most of this audience and most of the investors I speak to are in the early stages of understanding and making distinctions. If you take, for instance, traditional asset managers, the price differential, the multiple differential between the best traditional asset manager and the worst is huge. And yet most people are like, oh, you're an insurance company.

Here, this is your multiple. We're actually the best insurance company. You want to value us like an insurance company, show me the insurance company that has a 17% return on equity for 14 years that runs with excess capital that raises capital all the time, that brings in outside capital. Eventually, I think we will do that. We do not need to transition away from being an insurance company, and the irony of it is we have 100 of our peers trying to build what we've built because it's so bad.

This is literally the irony, and my joke as you know is that the multiple's going to change the moment Steve Schwartzman says he's doing that too. I just think we're early in the process in doing it. And I framed this before, but I'll make a conceptual point. What are spread related earnings? Spread related earnings means that the house has a hundred percent of the ups above 3%. That's what it means. That's roughly our cost of funds on average over a period of time. We own 100% of the ups above 3%. I think that's a good business. What is an incentive fee?

An incentive fee is 10% of the UPS over 8%. Which business is a better business? I think both are good businesses. I like both businesses. We're in both businesses. We have BDCs and REITs where we're 10% of the ups above 8%. But when you need to produce eight, you actually need to take risk on the asset side. You are not in the illiquidity harvesting business. You're in the risk business. In some markets, that's a good business. In other markets, not so much. 100% of the ups above three, 10% of the ups above eight, both good businesses. Now, do we have to put up capital?

Yes, we have to put up 8¢ of capital for every dollar, except we've had such a good track record that investors put up 2/3 of the eight. And we earn fees on their 2/3 of the eight. So the business model is a really good, really powerful business model. I think that it has not penetrated people's understanding, but it's penetrated our peers' understanding because a hundred of them are trying to do it and most will not succeed with the exception of KKR.

Patrick Davitt: Great. I have a couple questions on the pad from the audience. What do you think the risks are around infrequent, optimistic or incorrect asset pricing in private markets relative to public markets?

Marc Rowan: Look, I think the risk is loss of investor confidence and taken to an extreme regulatory invention. So I look at the three asset classes. In credit, credit adjusts pretty quickly. Credit is about ultimately rate and duration with some minor judgments for credit quality. I view private market valuations for credit as being reasonably timely. Equity historically has been reasonably timely. What we've seen is in a growth ecosystem with unique growth companies, the industry has taken liberties in the lack of public comparability, and I do not believe we've seen growth come down as quickly as growth should come down.

With respect to real assets, the market has adopted a convention of using NC reef, neck reef, which is backward looking two years. That means in a rising market, it's backward looking two years and in a falling market, it's backward looking two years. I don't know that it's mis-marked. It's just backward looking. By the way, for an insurance company who owns equity, it's actually backward looking three years. It's one of the reasons we own no insurance equity, no real estate equity in the insurance company because convention matters, valuation matters.

And ultimately investors are smart where they perceive public vehicles or semi-public vehicles as being overvalued. They withdraw their money. And eventually when valuation gets to where people think it's fair, they'll stop withdrawing their money and they'll look at the opportunity of the asset class. But if you have a chance to take your money out 5% a quarter at value you think is in excess of that which it's worth, you're going to take it. It's not more complicated than that.