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Apollo Global Management, Inc. (APO)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Apollo Global Management's Third Quarter 2024 Earnings Conference Call. During today's discussion, all callers will be placed in listen-only mode, and following management's prepared remarks, the conference call will be opened for questions. [Operator Instructions] This conference call is being recorded.

This call may contain – or 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 any interest in any Apollo fund.

I will now 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. Earlier this morning, we published our earnings release and financial supplement on the Investor Relations portion of our website. We reported strong third quarter financial results that included record fee related earnings of \$531 million or \$0.87 per share, near-record spread related earnings of \$856 million or \$1.40 per share, and adjusted net income of \$1.1 billion or \$1.85 per share, which reached the second highest level on record.

Additionally, I'd like to take a moment to thank you all for participating in our Investor Day last month. We were thrilled to have fantastic attendance with over 3,000 people participating live, in addition to another 54,000 who have accessed the replay since then. Given our proximity to this comprehensive event, today's call will be a shorter update. I'm joined this morning by Marc Rowan, CEO; Jim Zelter, Co-President; and Martin Kelly, CFO. Marc and Martin will cover prepared remarks, and Jim will be available for Q&A.

And 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, and good morning. I want to echo Noah's sentiment that we take nothing for granted, and we deeply appreciate your willingness to spend three to four hours with us on Investor Day to truly dig into the unique business that we are building. Hopefully, we outlined a clear vision for our five-year plan, as well as the upside drivers. In summary, for those who did not suffer through the three to four hours, we talked about average annual FRE growth of 20%, average annual SRE growth of 10%, FRE and SRE reaching \$10 billion, \$5 billion each in 2029 and ANI more than doubling to \$15 a share by 2029. Capital generation of \$21 billion.

In short, we laid out ambitious targets, but their targets, the management team and I are fully behind and believe we can meet. Third quarter was a solid start in that direction. In short, everything worked, the team made all of us

look good. We will open the frozen yogurt bar today to reward the team for that. It's one of the tools we joked about on Investor Day, but it's part of the culture of Apollo.

Let me spend a second as to how the long term business plan and the quarter relate to each other. In terms of our five-year plan, we laid out four macro trends, or tailwinds that we thought were going to drive ourselves and our industry forward over the next five years. The so-called global industrial renaissance and this massive need for capital to rebuild infrastructure, energy transition, and next generation power and data.

The second, retirement. The third is the growth of individuals complementing institutions who have long been the sole source of capital for private assets. And finally, the notion of public and private convergence. In short, any of these four TAMs could double our business over the next five years. It is up to us to execute against this opportunity set and to position the franchise squarely in front of these very strong tailwinds. We're fortunate in many ways that even at our size and scale, in the scheme of the asset management industry, we are a relatively small player. And while we project that we will double our business over the next five years, that is not all that large, particularly compared to the enormous TAMs in front of us.

Bringing it down to the quarter, in terms of global industrial renaissance and the massive need for capital, this was a record origination quarter. \$62 billion of originations for the quarter, \$194 billion year-to-date. Platforms, really strong quarter. Atlas, in particular, had a really strong quarter. \$50 billion of cumulative originations to-date, \$5 billion of equity capital raised, a new \$5 billion facility from BNP, 350-person strong. In short, the cylinders are all firing Atlas, and we expect great things from them going forward.

In Retirement, Athene had another \$20 billion organic growth quarter. We continue to widen the funnel through distribution expansion. Just launched with BAML last week, another top 15 platform. Away from Athene, we continue to make inroads into the Retirement space, in particular in the DC market. We have our first mandate for our AAA product, an RIA platform. We are in the equity sleeve of a CIT offering and we launched in October. While technical, this is an enormous milestone for us, and I believe portends well for the future in front of us in adding private assets to help bulk and accelerate retirement solutions for those in need.

In terms of individual investors and progress against retail, fundraising is on pace to increase 50% year-over-year in 2024 without a flagship fund. The team here has done an extraordinary job. ABC, our asset based company is now distributing on two large wirehouse platforms. ASPM, our evergreen multi-asset secondary strategy launched globally. We now have post these two, 11 wealth products focused on the market, six of which have been in the market for a year or less. But I want to really call out here what the potential of what this can be.

Recall that our strategy here is to be seen as an innovator in this marketplace. So, AAA, which we talked about a year-and-a-half ago, we've now crossed \$18.5 billion, and we expect to be circa \$20 billion by year-end. Strong returns here now approximately 10.5%, with a fraction of the volatility of public equity markets and public debt markets. This is the kind of product that has multiple uses across portfolios, and I stick by what I said when we launched the product, I expect this to be the largest fund at Apollo within a very short period of time, and I think next year will be when that happens.

ADS, also really strong performance. Durable yield, taking advantage of trends in private credit, but done it in an Apollo-esque way, lowest leverage, all first lean. We expect the strategy to be circa \$15 billion at year-end. I cite the size of this, because I think it's important to show just how fast this channel is developing. And the channel development is about product, it is about performance, but it is also about the capability to serve this large and growing market and the capability to continue to innovate. We learn something almost every day in this marketplace.

To cite just one example, we talked a year ago about an insurance wrap product to take advantage of the unique tax situation of individual investors. Our Altitude series, which encompasses our insurance wrap product, we expect to be circa \$1 billion at year-end and now active in two significant wirehouses. Those three trends, global industrial renaissance, retirement, and growth in the retail channel are three of the four cylinders that we expect – or three of the four tailwinds that we expect to power our business going forward.

The fourth is this whole notion of public and private convergence. We see this as fixed income replacement. What we're watching take place is investors who have historically allocated to private markets solely out of their alternative bucket are beginning to allocate out of their fixed income bucket, which historically has been a 100% public investment grade. We expect that, over time, investors will begin to divide this bucket between beta, public investment grade; and alpha, private investment grade; and they will consume that in a number of different formats. Some will consume it directly as pure private assets. Some will consume it in fund format, and yet others will consume it in products that are more familiar to them from more familiar names such as the partnerships and the relationships we've announced with Lord Abbett and with State Street. More on that product when it is approved because it is currently in registration.

Those four tailwinds, I believe, will push our business forward, and they will push our industry forward. But all of them ultimately depend on one factor, they depend on our capacity to originate assets that offer excess return per unit of risk, or alpha. We are not solely an asset manager. If we behave like an asset manager and simply gather funds, we will simply integrate our business, integrate our franchise. That is not our intention, and it is not what we're going to do. Our capacity to grow is limited, as I've said previously, by our ability to originate and we are keenly focused on how we go about doing this.

We have a number of platforms, some 16, which we've spent roughly \$8 billion building over the past 15 years that now employ circa 4,000 people. This is a very significant investment and a bar that many of our competitors will need to cross to compete with us in this area. Some will do that, and we expect them to do that. But make no mistake, this market is enormous. But one has to originate good risk to be able to grow their business and offer their clients excess return per unit of risk.

In the three-and-a-half hours that we talked during our Investor Day, I wish we could have covered everything, but we failed to. One area I really want to drive home and talk about our recent promotion is our third-party insurance. We have built, for Athene, the capacity to originate good assets and have proven over the past 15 years that we can scale our Retirement Services business. Recall that as an originator of assets, we want 25% of everything and 100% of nothing. In some ways, the ideal partners for us are other insurers, people who are trying to amortize the same sorts of liabilities that we're seeking to amortize and deal with the same capital and regulatory regimes.

Our third-party insurance business is approximately \$100 billion of AUM as of this date, and we expect it to double over the next five years. But it will not double on its own and so, we've taken one of our most senior partners, Jeff Jacobs, and asked Jeff to become the CEO of our third-party insurance business with all of the resources of the firm at his disposal. This is important to us, not just in the capacity to add AUM, but also to support an industry and to support retirement, and to make sure that there's a broad understanding of the regulatory and capital regimes associated with private assets, particularly private investment grade. And it's an area that will receive lots of attention from us.

In short, we're playing to win. Lots of the terms we've introduced across the industry, this notion of origination, fixed income replacement, and an industrial renaissance now seem to be mainstream. We believe we are building something unique in the context of our industry, and we believe we are uniquely positioned for this opportunity

with the capacity to originate the right cost and form of capital, and the right culture to succeed. In short, we got to do this.

With that, I'll turn it over to Martin.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

Thanks, Marc, and good morning, everyone. So, third quarter financial results across FRE, SRE, and PII exceeded expectations and positioned us well to close out 2024, consistent with our expectations and to move confidently into the first year of our latest five-year plan. I'll make some very brief comments on this quarter's results before opening up to Q&A.

Fee related earnings, within asset management, FRE reached a new quarterly record and surpassed \$1.5 billion on a year-to-date basis, supported by strength in fee related revenues from our credit business. Credit management fees increased 20% year-over-year, with growth in third-party credit management fees exceeding that of Athene and Athora. Over the last 12 months, we've generated more than \$140 billion of inflows to support continued management fee growth. In the third quarter, credit inflows totaled \$39 billion, inclusive of the robust flows at Athene that Marc mentioned, as well as broad based fundraising activity across direct lending, opportunistic, and multi-credit, and further inflows related to financing our Atlas business.

Our Capital Solutions business posted its second highest quarter of fees on record, supported by approximately 80 underlying transactions. Fee related performance fees were also strong, increasing more than 40% year-over-year. This fee stream is primarily driven by stable spread based income from certain credit products and vehicles, including ADS. Going into the fourth quarter, we expect these revenue growth trends to largely persist, supported by our previously discussed organic capital formation target of \$120 billion for full year 2024 and a strong diversified origination pipeline.

At the same time, we've remained focused on cost discipline with total expenses increasing 11% year-to-date versus the prior nine-month period, excluding the impact of \$15 million of fund merger costs in the second quarter that we previously commented on.

Turning to Retirement Services, SRE results reflect robust organic growth trends of \$20 billion in the quarter and solid levels of spread profitability. Net spread, excluding notable items, increased by 16 basis points quarter-over-quarter and was roughly flat with Q2 when adjusting for our long-term expectations of an 11% alternatives return. As part of this, Athene's alternatives portfolio generated an 8.2% annualized return in the third quarter, within which AAA generated a 10.5% annualized return, approaching the 11% long-term expectation.

We took several actions with respect to Athene's alternatives portfolio within Q3 to align the allocation more closely with AAA, which now accounts for approximately 80% of the portfolio at quarter-end. Starting in January and going forward, we intend to pre-release return information around the first business day following quarter-end in an effort to provide more near-term visibility into this line item.

Turning to the year-to-date view, SRE totaled \$2.4 billion, up 5% versus the prior year comparable period when excluding notable items. As we described in detail at Investor Day, we expect SRE to approximate \$3.2 billion for the full year, which implies a similar level of SRE in the fourth quarter versus third quarter results on an as reported basis.

Principal investing income benefited from some monetizations by Fund IX during the quarter. Our net accrued performance fee balance at September 30 was \$1.4 billion and continues to be supported by strong investment performance. We generated double-digit returns across a variety of credit strategies and hybrid value over the last 12 months, as well as more than 30% for PE Fund X over the same period. While we expect near-term realizations activity to be more in line with recent quarterly trends based on our current pipeline, we're optimistic that PII will increase meaningfully over the next couple of years as the exit environment improves.

In terms of capital allocation, we deployed more than \$400 million within Q3 to opportunistically repurchase more than 4 million shares at an average price of \$105 amid heightened volatility during the quarter.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Our first question today is coming from Alex Blostein of Goldman Sachs. Please go ahead.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you for the question, everyone. So, I was hoping we could start with the progress you guys are making on third-party fundraising, and particularly with respect to the insurance channel, Marc, as you mentioned earlier. Couple of specifics, maybe you can give us an update on the flows you're seeing there year-to-date, I heard \$100 billion in total AUM, but curious on the growth and the type of fee rates you're seeing in that channel?

And just broadly, when you think about the addressable market there, what sort of changed that sort of enable some of these insurance companies partner with you guys as a competitor in some way? And in terms of the liabilities that you're looking for in this channel, is this strictly an annuity kind of rider channel or sort of broad insurance base?

Marc Jeffrey Rowan

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

A

It's Marc, Alex. I'm going to start more generally and then Jim will pick up specifically. A bunch of the things you've said really don't track with how things have done. We have always started and always run a third-party business. People who you would think would be – who are our competitors in the liability, we partner with on the asset side regularly. Not only do we partner with them in an aligned fashion for the assets themselves, but from our public announcements that a number of people you would consider our direct competitors own pro rata side-by-side pieces of our origination platform. We intend to continue to do this going forward.

Unlike certain very constrained markets, for instance, like private equity, the market for private investment grade, I believe to be fast, and this is about having the capital to go after them. And also recall that although we originate a risk, we want some of that risk for the Athene balance sheet. We want some of that risk for our credit funds and the other accounts that we manage on behalf of our third-party clients.

At this point in time, and for the foreseeable future, having like-minded institutions, particularly insurers who have the same risk reward, the same regulatory and the same capital regimes, is additive to our franchise and is

additive to their franchise. Competitively, we still take a very, very large share of these assets, and no one competitor has anything near it. But we view this as beneficial to our franchise. And in turn, if one of our peer insurance companies originates risk that we think is interesting and they want us to take – participate with them, we will. It's a very different ecosystem than people have historically thought of in the private equity, where it's a winner-take-all mentality. I sometimes joke in credit that if you originate a risk and own 100% of it, it means you made a mistake, rather than you want something.

The second part before I turn to Jim is, we have two or three different types of insurance accounts. And by the way, they're mostly life and annuity, not P&C, just to touch on that. Some of third-party insurance are direct placements with peer insurance companies, either through programmatic investments, one-off investments, or in the context of funds or SMAs, very big part of our business. But increasingly, we actually see people partnering with us, institutions and in some cases other financial institutions side-by-side with us in ADIP.

ADIP gives participants not just a share of the assets, but a share of the liabilities. And they get to leverage off the Athene cost structure. Although we didn't talk about it this quarter, when you have a chance to go back and look, Athene continues to do an unbelievable job on the efficiency of operations. I saw some numbers from the quarter. I, quite frankly, was impressed. So, with that, I'm going to turn it over to Jim.

James Charles Zelter

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

A

Yeah, not a lot to add, Alex, but I would say that, what Marc just described is this open architecture flywheel. And whether it's in funds, whether it's in ADIP, whether it's sharing views on how CLO should be looked at and calculated from a regulatory perspective, there's a whole variety of activity that takes place. And, we have always been a player in this space. But as Marc mentioned, by putting one of our senior individuals who's really been at the intersection of the Athene portfolio of leadership, applying that same insight, sourcing, portfolio, construction across the environment is helpful.

And, again, this is mostly investment grade activity. And the reason why we think it can grow so large is, for the most part, all this activity, if you get into investment grade and fixed income replacement, this is really dispersion of credit risk across the platform and across the ecosystem, not just the creation, which is really more the traditional direct origination. So, the scale and substance of these activities, we think is, we're still in the early days.

Operator: Thank you. The next question is coming from Craig Siegenthaler of Bank of America. Please go ahead.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Q

Hey. Good morning. Hope everyone's doing well. My question is on retirement outflows. So, after a pick up last quarter, they improved back down to the 10% range annualized, kind of right in line with your target from the Athene presentation from August. But from the same disclosure, they're expected to decline again modestly in 4Q 2024, where we actually don't have any visibility into 2025. So, I'm wondering if you could share with us how liability outflows are expected to trend in 2025, and for the full year, is it generally in line with 2024 with some quarterly deviations?

Marc Jeffrey Rowan

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

A

It's Marc for one second. So, during the substantial run up in interest rates, there was a tremendous amount of interest from the research community and from shareholders into the behavior of liabilities. And so, we began to publish the statistics that we used actually to run our business. The runoff of insurance liabilities is actually highly predictable. And one of the things we wanted to do by publishing is to show that we actually have a pretty good sense of when period end business, MYGA business, is going to runoff. We have a regular flow of pension risk transfer business and a regular flow of runoff of fixed income annuities, as well as policy loans and other out-of-period surrenders. I think the easiest thing to do is probably update our 2025 forecast, but with Investor Day, we didn't get around to it. I think that's – it's on our to-do list.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

Which it's high up the list, we plan to. I would say, I'm not aware of anyone else in the industry that publishes this information. And so, it's another area where we strive to be transparent, and we track very closely against the metric. And as Marc said, the ups and downs from any one quarter to the next tend to be driven by contractual features of policies. And so, they're highly predictable. Looking ahead, I wouldn't expect any different trend from what we've seen. It's just tracking exactly as we expect.

Operator: Thank you. The next question is coming from Bill Katz of TD Cowen. Please go ahead.

Bill Katz

Analyst, TD Cowen

Q

Okay. Thank you very much for the comments and taking the questions this morning. Marc, I'm intrigued by two of your comments, just your notion of retirement opportunity, as well as the retail. I think I want to ask about retirement, but I'm going to ask about retail. In terms of the retail platform, you mentioned you're learning a lot. So, I was wondering if you could maybe help us understand how you see the opportunity set evolving for the industry and Apollo's role in that?

And then secondarily, a number of your peers have been sort of speaking to higher expenses to build out the wealth management footprint. Could you share with us where you are in terms of that expense cycle? Thank you.

Marc Jeffrey Rowan

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

A

So, I'm tempted to answer your retail question with a retirement answer, but I'm actually going to go after the retail side of it. So, we're in the very early stages. I think one of the things we tried to do at Investor Day was to present this pyramid of how we think about the retail channels. At the top of the pyramid, we think about family office. Family office to us is really nothing other than institutional. We cover them like institutions. They behave like institutions. As best we can tell, they are now close to 50% private, which does not mean alternative in a traditional sense, but 50% private.

At the bottom of the pyramid, I call that mass affluent. I hypothesized that we were not likely to serve these people directly, that we were likely to be a parts provider to incumbent asset managers, traditional asset managers who were going to blend in a number of different formats, private assets into products that are more easily understood by the vast majority of investors who will not on their own go through the educational process and perhaps are not closely advised by a financial advisor.

The channel that, I think, you're referencing is really talking about the advice channel, which, let's call that, high net worth, which has lots of different definitions. For us, I think that this is a question appropriate products and

services. They generally do not buy products that have binary outcomes. They buy things that are more yield oriented that tend to pull to par or have more predictable behavior, although episodically they do buy traditional alternative products in fund format, but that is not the vast majority of what we're talking about.

If you think about these institutions, serving these institutions is going to be, in my opinion, an opportunity for a handful of firms, to scale that one needs to put together of people, technology, products, systems to serve one of the large wealth channel participants really only makes sense if you are multiple products at a large scale and are capable of generating alpha. Let's not forget that at the end of the day, we're not just asset manager, we have to develop excess return. For better or worse, I think we envision the costs of doing this. I don't view the costs as a surprise. They have been contemplated in the context of the budgets and forecasts we've given you. So, I would not call out anything unique.

I think the interesting thing that's happening in this business is, when we enter a certain channel, we say, oh, we're partnered with so-and-so. The reality is, we're still to 5% or 10% of their financial advisors and their clients. We, all of us, have yet to fully penetrate any of these systems. To fully penetrate a system, we have to make our products simpler. We have to be able to serve qualified and non-qualified investors, and we have to be able to do it with technological ease. And so, we are not so much seeing cost pressure. What we're seeing is requests for services. This can be educational services, this can be technological services. This can be ease of doing business services. And perhaps one of the most intriguing, something we've referred to previously, is addition of regular way, low cost leverage.

And with that, I'll turn it to Jim to see if he wants to add anything.

James Charles Zelter

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

A

Yeah. And what Marc's really talking about is taking a product dialogue and making it much more of a portfolio solutions dialogue. And we're the head of the pack in terms of the breadth of products that we've created. As Marc said, the clients don't want ever – they don't want binary outcomes, they want a lot more evergreen products. But the latest note that Marc mentioned, whether it's, certainly in the equity business and the public equity business, the ability to buy things on margin, while certainly there will be a time in the future where whether it's fund finance or other or even portfolio solutions in terms of SAA, strategic asset allocation, how a client looks at a variety of these options. So, it's much more holistic. There'll be a few winners we plan to beat. We have planted our flag with resources and commitment and vision to be a successful player.

Operator: Thank you. The next question is coming from Steven Chubak of Wolfe Research. Please go ahead.

Steven Chubak

Analyst, Wolfe Research LLC

Q

Hi. Good morning. So, I'm actually going to ask a question around the retirement opportunity. At Investor Day, Marc, you did make a compelling case for a rethink of the future state of target date fund allocations around the \$15 trillion DC opportunity. As we think about what is tangible on a near-term basis in terms of wealth allocations and how that might evolve on the percentage that's in target date funds, it looks like less than half of DC assets are currently held in target date funds. The majority of those fund assets are held by folks in higher age cohorts. So, wanted to get your perspective on how you see that opportunity evolving over time. How much of that \$15 trillion do you believe you can service on a more near to medium term basis once that new market opportunity hopefully opens up to you and your peers?

Marc Jeffrey Rowan

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

A

Okay. So, I'll start by saying that I did point it out, but it is not something we've budgeted in our plan or to get to our five-year plan. But I think we have to just look around the world for solutions, and I did mention that at Investor Day. In places in the world where private assets, and I'm not talking about alternate, but private assets have been added to portfolios, societies have gotten superior outcomes.

Australia is probably the most visible place where superannuation has achieved very, very successful returns for retirees in Australia. And one can demonstrate that if you look at the inclusion of private assets, along with traditional assets in a blend, we're talking about outcomes that are not slightly better. We're talking about 40% to 60% better outcomes. Over time, I believe people will see the light, and we will eventually have the inclusion of private assets in what would be traditionally public-only portfolios.

Right now, record keeping, rule of law, or practice, really have kept significant allocations out of that for the time being to the detriment, I believe, of the participants in these plans. But the retirement opportunity is not just about the \$12 trillion to \$13 trillion of 401(k) and having a slice of that participate in private assets. It is also about rethinking retirement more generally. If I look at our 15 years so far at Athene, I have to really commend the team. They have done an incredible job. They took a startup, and they turned it into the largest organic originator of retirement products in the US, and I believe in the world. And they do it really efficiently. They do it really well, and they earn very nice rates of return.

But if we're honest, what they have done is they have taken a traditional product set that has not really been updated all that much over the past 15 years. And they've just done a better job. And they've offered consumers a piece of the private markets alpha to create better outcomes, and it turns out consumers prefer more to less. I believe there's an opportunity to rethink the product set itself.

And we had a little discussion at Investor Day, the notion of simplification and getting to guaranteed lifetime income, I believe, to be the North Star for where we would like to go, whether we get all the way there in a simple product that offers guaranteed lifetime income. We had a little back and forth at Investor Day, but that is what we're pursuing. But this notion of rethinking the product set, I believe to be the single biggest opportunity in front of us, and that is what is baked into our five-year plan over the next few years, should we get access to 401(k) through broad based reform or regulatory change or regulatory encouragement, I believe that would be upside, not just for us, but for the entire industry. Limited, of course, by all of our capacity to originate. At the end of the day, this comes back to origination.

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Operator: Thank you. The next question is coming from Mike Brown of Wells Fargo. Please go ahead.

Michael C. Brown

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Thanks for taking my question. I guess, building on that discussion, I wanted to ask about the AAA sleeve MCIT offering that you flagged, Marc. Do you have a pipeline of other opportunities building on other RIA platforms? And I guess, how do you see this expanding? Can it eventually move to wirehouses, for example, on kind of like model portfolio structures? Thank you.

Marc Jeffrey Rowan

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

A

So, I'll start in reverse. So, AAA today is circa \$18.5 billion. We expect it to be circa \$20 billion at year-end. It is broadly – it's an equity product, but it is a hybrid type equity, meaning it has lower volatility than traditional equities, and its notion is to produce low double digit rates of return with much less volatility than public equities. Recall that public equities over a long period of time with volatility, offer 9% to 10%. So, the use case here is, in part, equity replacement, and in part risk reduction through hybrid without yet moving to fixed income and lower rates of return.

We are seeing it adopted in portfolio allocation. Right now, it is still being purchased as a product. Someone comes and subscribes to AAA because they want to be in AAA, but I do envision a day when we will be talking about 60/40 portfolios that are comprised of public and private. I do think the future of the retail business will in part be portfolio solutions.

In the retirement space, in this first CIT, that is essentially what is happening. It's part of the equity sleeve that is the default offering for equity for this group and plan of retirees. Pipeline, I believe, would overstate the progress to-date. I am very happy to see the first and first couple of individuals and firms who are beginning to look at this as part of an overall solution. And let us do a good job doing this, and we'll grow from there. But it's too early to say, pipeline.

Operator: Thank you. The next question is coming from Patrick Davitt of Autonomous Research. Please go ahead.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Hi. Good morning, everyone. Going back to Bill's question, it sounds like obviously you're getting a lot of traction adding retail distribution. But on that, another manager last week is seemingly talking down near-term margin expectations, primarily as a result of the ramp of payments directly to the distribution platforms. And we aren't really hearing that message from you or others for that matter. So, this is a headwind we should expect to see more of. And in that vein, maybe expand on how you account for those and why it might be different than others are? Thank you.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

Good morning, Patrick. It's Martin. So, we're not seeing that headwind. I would say, if you look at how retail product is distributed in whatever – through whatever channel, there's a reasonably large segment of the distribution which incurs no cost. So, think family office, we cover family office ourselves. There's no sort of external costs to distribute that product. And there are a couple of other channels which are similar. Within the channels that we do incur costs, the cost can come in one or two forms, it can be either a trailer against revenues, which is just netted against the revenue line, or it can be an upfront placement fee and that's expensed as it's incurred.

And we're still early days in this whole evolution. But what we're seeing is a migration of the costs from upfront fees to trailer fees. And I think that reflects the quality of the products and the stickiness of the product. But you'll see, all of this is contemplated in the plan that we've laid out. We don't expect to see margin degradation from it. And I think you'll see a majority of the costs over time will be netted against revenues versus an explicit non-comp cost. So, hopefully, that helps put the pieces together.

Marc Jeffrey Rowan

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

A

I'll add a little bit to it, and this is a part of a broader outlook. I mean, part of what is implicit in the discussion that we've been having of origination is that we expect private assets to have lots of demand and to be in shorter supply. If we're right about that, we would expect fees to be stable over a long period of time unless there is something unexpected that happens in the industry. We've built this entire business, our industry, out of the smallest bucket of our institutional clients called alternatives.

All of a sudden, we have three new sources of demand for private assets. Retirement is full swing into private assets. Insurance companies and others have been for a long period of time, and you're seeing them broaden out what they do. The second is individuals, individuals ball through the retail channels that you've been talking about, but also through the convergence of public and private, the inclusion of private assets in public products. So, we see that as really interesting growth to what's happening. And then we see our institutions who historically have only invested in private assets out of their alternative business, beginning to invest in private assets out of their much larger and heretofore untapped fixed income bucket.

If we're right, we expect there to be significant demand for private assets, and the supply of private assets is not the same as a supply for an asset manager. It is up to each of the firms in their respective areas and where they have expertise to generate these assets that offer excess return per unit of risk. That's, after all, the promise of private markets.

Operator: Thank you. The next question is coming from Brennan Hawken of UBS. Please go ahead.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Good morning. Thanks for taking my question. So, thanks for the adjusted metric of origination. It looks like it largely maps to the prior debt origination disclosure, but maybe can you speak to the equity that you added that's reflected now in a new number and where that's largely sourced from? And then, also you have 16 origination platforms, and I believe historically you guys have talked about rationalizing that footprint and reducing the number of platforms. So, could you give us an update on those efforts and maybe updated expectations for how many platforms you expect and what impact that will have on the P&L?

James Charles Zelter

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

A

Sure. This is Jim. I'll just go to some basic numbers and Martin can give some color as well. But the \$62 billion is the origination number for the quarter. And it's really, a vast majority of it is the debt origination, mid to high-50s is debt origination. And that split on the debt side between the platforms and the core credit, that's a lion's share of that with also our high grade capital solutions. Certainly, it's our view the 16 platforms we've organized and Chris Edson now is the person who runs our Global Origination business, he brought it all together. Have it run in three or four buckets where there's a rationalization of oversight or symmetry and risk and sourcing and analytics.

And so, we're not tied to the number. We did sell one in the past and it really was a question of the size of the flow that we received versus the equity investment got out of out of bounce. But for the most part, we're very, very happy with the 16 today. They're diverse in terms of product set. They're diverse in terms of regional and global coverage. They do have one similarity, senior secured top of the capital structure risk, the four biggest being Atlas, MidCap, Redding Ridge, and Wheels. So, we're very focused on those 16 and don't see any more rationalization other than how we oversee and direct the business. And, again, this is where the Apollo

ecosystem, and our historic private equity mentality, we bring that mentality, that oversight of centralized analytics to these capital markets and origination activities and we've been very successful.

The other areas, the core credit, large cap origination, CLO, CRE, are all going along. We do have a number, north of 12 origination partnerships, only a couple of which are public, obviously, namely Citi was a quite a large name. And so, from our perspective, the business is, we feel we are a market leader. Following the nomenclature that's used by many of our peers and the conversations in these conference calls, it seems like there is a lot of renaissance and insight into this strategy. But we feel we are the market leader, and it's all about, capturing that great yield on a risk adjusted basis. So, no big change in the strategy.

Marc Jeffrey Rowan

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

A

So, I'm going to just pick up on two tangents, the first on costs. Recall that these platforms are standalone entities. We may start owning 100% of them, but we generally do not own 100% of the sizable platforms over time. We own them, as I suggested earlier, in partnership with institutional investors and in partnership in some cases with what people would view competitive peer insurance companies.

There is no expense drip, if you will, from the platforms. The platforms bear their own expenses and it's part of the ROE of a platform, and by the way, the ROEs on the platform are generally quite good, and they form a bulk of what is inside of AAA at this point in time. So, you can see the synergy of how the business works together.

The part we didn't talk about was equity, and I think it's interesting to talk about equity. Our five-year plan envisions very substantial penetration of fixed income replacements. Recall, the five-year plan calls for a doubling of the size of our credit business, which is already our largest business. But in contrast to our first five-year plan, the second five-year plan also forecasts that we will substantially grow our equity business, particularly in hybrid equity. Hybrid being not a hybrid like a bank hybrid, but hybrid being the midpoint between debt and equity. Think of it as lower risk, lower reward equity. Starting to measure that, holding the teams responsible for that is a key part of the way the business is run. And so, putting it out there and having a report card with all of you, that shows how we're doing, I believe, to be very important.

I thought the team did a very good job of presenting a very compelling case for the growth of the equity franchise over a period of time, and it's a key plank in our strategy and measuring it is where it starts.

Operator: Thank you. The next question is coming from Brian Bedell of Deutsche Bank. Please go ahead.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Good morning, folks. Thanks for taking my question. Maybe just back on the origination at \$62 billion, you've obviously, annualized that's almost \$250 billion and your goal is \$275 billion per annum over the next five years. So, just wanted to get some context on, where this level could go if there are any, significant capacity constraints that would limit you from going, materially higher than the \$275 billion run rate. And then as you distribute that, I think the template has been, 25% third-party, 50% Athene, and 25% syndication. How might any kind of overage of – if you exceed your goals on \$275 billion? And as you think about the allocation through the different parts of those businesses, how might those change if the origination exceeds those goals?

James Charles Zelter

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

A

Well, thank you. It's Jim. Since we're a broad 60 days into our five-year plan, we're not going to adjust the number at this point in time. But I guess, let me give you a little bit more color on the business in terms of spread and scale and breadth. And I'd also, before I get into that, like, this is the whole – the philosophy of the third-party business, the philosophy on syndication, open architecture, evergreen products. These all tie in to the notion of expanding the footprint, expanding origination, having partnerships and wanting 25% of everything and 100% of nothing. This all is very consistent with that theme.

I will give you a bit of color. What we have found year-to-date over the last 24 months is on the origination platforms, which have grown nicely and are a big contributor that the actual spreads on the products that we're creating has stayed in that mid-300s, approaching 400 basis points over on a spread basis. And notwithstanding the volatility in the Treasury market and the compression of spreads in public corporate credit, which has been very, very strong, over 150 basis points of compression spreads, spreads have tightened maybe of 10 basis points to 15 basis points out of the origination platform. So, approximately 400 basis points over to 385 basis points, 390 basis points.

On the traditional credit platform, we had a bit more compression. If the public markets have compressed 150 basis points, we've got about 60 basis points, 70 basis points of compression on spread. And when you add that all up, we were in the in the 410 basis points area about a year or so ago. We're like in the 375 basis points, 380 basis points zip code today. So, compelling, scaled, value proposition which is really feeding all of our business. It's feeding ADS, it's feeding AAA, it's feeding ASPC, all the products and will so in the future, we're excited about the launch of ABC in terms of our Asset Backed Corporation. But, again, I think it'd be presumptive to expand that estimate of our scale. But I don't want to underestimate the impact of the flywheel of syndication, of ACS, of global wealth, of third-party insurance, which it touches on all of those.

Operator: Thank you. The next question is coming from Ken Worthington of JPMorgan Chase. Please go ahead.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Rates have backed up subsequent to the end of the quarter, how does the move impact the hedges that you called out last quarter? And to what extent are you using the higher rates to engage to further fix your floating assets? And is the move that we've seen in rates enough to impact spreads as we think about 4Q?

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

So, our plan, I think, as we were clear is to maintain a net floating rate position around \$15 billion. And so, our move in rates won't change that hedge posture, certainly within the context of what we're seeing. And if you recall from the Investor Day, we had modeled our expectations that we'd have six rate cuts – for the equivalent of six rate cuts in the estimates we provided, two this year and another four before the end of next year. So, that's looking more realistic today than I think it was back a month, six weeks ago. So, Ken, no real change. It's obviously a component of earnings. And we're pretty clear about extreme moves in rates on the up and the down and how that affects the blended growth of the business after core earnings growth. But no change as to hedge posture or outlook.

Operator: Thank you. The next question is coming from Ben Budish of Barclays. Please go ahead.

Benjamin Budish*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning, and thank you for taking the question. I wanted to ask about the SRE guidance. If I just think back to last quarter, can you unpack a little bit what went sort of better than expected? When I look at least The Street numbers, it looked like your cost of funds came in a little lower than expected. And then thinking through to Q4, your full year guidance is unchanged. So, thinking about what perhaps went better this quarter, is there some sort of reversal expected or any kind of timing differences? How should we be thinking about those different factors? Thank you.

Martin Kelly*Chief Financial Officer, Apollo Global Management, Inc.*

A

Yeah. So, we had a \$20 million quarter. So, that's very strong and that drove earnings. We also were able to invest at the margin and as sort of using the metrics that Jim just walked through, the spread that we're able to earn on assets at the margin was a bit better than we're expecting it to be. So, it's really those two components. I mentioned that we expect Q4 to be more or less the same as Q3 in terms SRE dollars, assuming 11% return on alts, that would get you to a 5% growth rate for the year, like-for-like, we said 4% at the Investor Day. So, it's sort of right on top of what we suggested. So, no real change. It's just we had a larger quarter in top line growth and that flowed through to reported SRE.

Operator: Thank you. The next question is coming from Dan Fannon of Jefferies. Please go ahead.

Daniel T. Fannon*Analyst, Jefferies LLC*

Q

Hi. Thanks. Good morning. So, just to follow up on that question. So, are the changes to the alternatives allocation for Retirement Services complete? I think you mentioned AAA now represents 8%. So, therefore, getting to that 11% normalized return given AAA's performance, is that what we should be expecting going forward?

Martin Kelly*Chief Financial Officer, Apollo Global Management, Inc.*

A

Yeah. The answer is, yes. They are complete. And I'll just provide some context around what the portfolio looks like today. So, about 80% of the alts portfolio is represented by AAA. About 10% is represented by Retirement Services platforms that we retained, Athora, principally, and a small exposure to Venerable. The other platforms have all been repositioned or sold within the group in the third quarter. And the other 10% is other investments typically in hybrid type fund investments around the platform that we would expect would generate teens returns over time. So, we have done the repositioning that's behind us, and we obviously believe that that will help in getting to sustained sort of circa 11% returns over time.

Operator: Thank you. Our final question today is coming from Michael Cyprys of Morgan Stanley. Please go ahead.

Michael J. Cyprys*Analyst, Morgan Stanley & Co. LLC*

Q

Hey. Good morning. Thanks for squeezing me. I was hoping you could update us on the use of your sidecar vehicle, ADIP. I recall in the past you guys have talked about ADIP ticking down about 40% to 45% or so of new funds over time. I think year-to-date it's a bit less than that. Just curious if you could just update us on how you

see that evolving over the next couple of years, what factors you consider in toggling ADIP's contribution higher? And then in what scenario might you increase the dividend out of Athene relative to your guide for the consistent \$750 million a year of dividends? Thanks.

Martin Kelly

Chief Financial Officer, Apollo Global Management, Inc.

A

So, we outlined – the SRE growth is governed by or driven by a couple of different components. Obviously, the underlying core growth in the business is one. Rates, two. Back book repositioning, three. And then the contribution of ADIP capital to taking down new business is the fourth. There are some choices in there that we can make. And we were pretty clear that within parameters that we've established, we can make choices to increase or decrease the participation that ADIP has over time.

And that's relevant not just in aggregate, but it's also relevant at the product level. And so, that's part of how we are able to achieve the earnings growth that we've outlined. I think over time, you should expect that the rate of participation will be consistent with that long-term average. So, think sort of mid-to-high 30s, 40% as an appropriate return – percentage participation in business over time.

Marc Jeffrey Rowan

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

A

Maybe I'll just close it out with just two additional thoughts. In terms of capital, as you know, we take roughly a \$750 million a year dividend out of Athene. The forecast that we gave you does not have any real change in that, because it is also tied to a substantial amount of growth in the Retirement Services business. And growth, as Martin suggested, can be organic growth in the business, or Athene always has a choice to own more of the business that it creates rather than giving it out to the sidecar, which is not done on a deal-by-deal basis. It's done over a long period of time and over a vintage.

So, it's not something you can change immediately. But you should assume, as Martin suggested, that the dividend out of Athene remains the same, absent a real falloff in business, which we do not expect. I do think it's worth a question on the sidecar. This is something that we've tried very hard to get to make the point on. The insurance business, the Retirement Services business is so attractive that we actually have clients who pay us to be in the business with us.

Not only do they pay in the sidecar of the same asset management fees that Athene pays, they also pay a fronting fee to Athene for putting the business on the books, and they pay a fee in terms of promote on the overall. And so, the ability to put more than \$6 billion into a sidecar reflects a belief that we will use this responsibly, and we will generate high rates of return on a responsible basis over a long period of time. If you do that, you get to raise the sidecar. If you don't do that, you are forced to build the business solely with your own capital to subsidize. That is a little bit of what we see going on in the industry today.

And recall that capital regimes in the US and Bermuda on the one hand and capital regimes in places like Caymans and the other are totally different. I do believe a word of caution in our industry, any time you hear people have gone to Caymans, you should just divide the capital by two. I do not personally believe that is going to end well, and it's not where we intend or how we run the business. We want to do things on a long-term, sustainable basis that provide good rates of return for people while having adequate capital in the business.

Operator: Thank you. At this time, I would like to turn the floor back over to Mr. Gunn for closing comment.

Noah Gunn

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

Great. I'd just like to close by saying on behalf of our entire team, we really appreciate again all the time that you've given to us and focusing on our business between Investor Day and today's call. If you have any follow up questions on anything we discuss, feel free to follow up with us directly, and we look forward to speaking with you again next quarter. Thank you.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast and enjoy the rest of your day.

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