APOLLO

Apollo at the Bernstein 40th Annual Strategic Decisions Conference
May 30, 2024

Patrick Davitt:	Good morning, everyone. My name is Patrick Davitt. I'm the U.S. asset manager analyst here at Autonomous. It's my pleasure to welcome Apollo's CEO, Marc Rowan, back to the stage. Thanks for coming on.
Marc Rowan:	Well, thank you for having me. I mean, we didn't screw it up too badly last time.
Patrick Davitt:	Not at all. As a reminder, if you want to submit any questions, you can do it through Pigeonhole, and I'll try to work them in from my iPad here. So Marc, maybe to start, since we have most of the major alternative manager CEOs here, let's start with a macro question. Given your position as one of the largest private credit managers in the world, I think it's best to start there. I sense some increasing concern with investors that sticky inflation, higher for longer, slower economic growth could be particularly bad for levered risk assets, alternative assets more broadly. Do you agree with that view? And what is your outlook now for inflation rates, the economy, the soft landing narrative?
Marc Rowan:	Well, you should take my outlook with a grain of salt. I'll tell you what I see. Three years ago, we decided to build an infrastructure in this country. We passed the infrastructure bill, not a single piece of infrastructure is built. Two years ago, we allocated $52 billion for semiconductors, not a single semiconductor plant is open. A year ago, we passed the Inflation Reduction Act to encourage the manufacturer of EVs, EV batteries and renewables, not a single plant is open. For the last 3 years, we have been the largest recipient of foreign direct investment of any place in the world. We have been reshoring our supply chain since COVID, and we are ramping defense production. House prices are going up. Financing markets are open. Other than we have an election, I don't see a single actual need for any change in rates. It is very clear, we're not in a restrictive period of time. Somewhere in the Fed basement, there may be a model that says something other than that. Then you take it to markets and we're not, as you know, a day-to-day investor. But I will tell you, we are not in a high-rate environment. We are in a normal rate environment. This is actually a really good time for credit because you just start with high base rates or higher base rates, normal base rates, less lending out of the banking sector. You can choose where you want to be in the risk/reward from below investment-grade direct lending to investment grade. You're getting near to long-term equity returns for senior secured risk. Feels like a good time to be long credit, not just because we're a large credit manager. I think that's what investors are doing. They're rotating their portfolios to be more credit-oriented.

On the equity side, I feel differently. I think in our industry, our industry, the private markets industry, alternatives industry, we have primarily been financed by institutional investors around the world. I believe that institutional investors will experience relatively negative returns out of their equity alternatives bucket for the next 5 years. And that's not going to sit well with them. So on average, they're going to wake up depressed. But on the margin, I believe returns are actually quite high.

And that duality, that schizophrenia, I think, is what we're going to see over the next few years, and it has a very straightforward cost. I mean, think about what happened over the past 5 years. You were the best real estate investor in the world. You moved to Austin, Texas. You only bought multifamily. You bought only the best multifamily. You were right. It's 100% occupied. Rents are growing 10% a year for every year. You borrowed 60% LTV at 3.5%. Five years later after that great move, what's your equity worth?

Well, your equity is worth $0.40 on the dollar. Cap rates have outpaced 5 years of 10% rental growth, and now your 5-year loan is coming due. You're going to pay 7.5% for new money in the bank or Apollo is going to lock it in for the next 5 years. You're going to have to put in more equity because your coverage is low, so your returns are going down. And so on balance, what can you do to change that outcome? You have 2 strategies, hope and prayer. Because you're already 100% occupied, your rents are already growing. And so you basically are locked into a lower return outcome than you otherwise thought.

Now replace the words Austin, Texas with enterprise software or any other asset class that was the beneficiary of low rates. I think we're going to see a shakeout in our business when the dust settles where investors will be able to look at who is the beneficiary of levered beta and low rates and who is the beneficiary of actually being a good investor. So I have kind of a mixed outlook on equity, and I would say a very positive outlook on credit.

Patrick Davitt: That's a nice segue into Jamie Dimon's comments here yesterday that are getting a lot of press, saying that there could be, quote-unquote, hell to pay in private credit with broader stress. He said some very complementary things as well, which are not getting press, of course. But I wanted to give you a chance to address it. Firstly, I'm sure he thinks Apollo is one of the good and smart players. But are you seeing any irresponsible behavior that he seems to see from other players? And secondly, if he's right, is there a risk that some bad apples spoil the party for everyone else?

Marc Rowan: So I think we have -- so the answer is, I think Jamie is a very smart observer of industry dynamics, but I also think we have some nomenclature issues. So what Jamie spoke about yesterday was the levered credit market. Levered credit is a below investment-grade asset. It is funded out of the alternative bucket for institutional clients that is generally funded out of the risk bucket for high net worth clients.

What might they be investing in other than levered credit? It's not coming from their treasury allocation. It's coming from their equity allocation. And so I always -- I reflect back the following way. There are lots of ways to lose money. You can make bad investments. But at the end of the day, individuals have moved to levered private credit

below investment grade because they see returns there that are equal to or better than equity returns with less risk than equity.

So Jamie is not wrong that there could be losses. There could be losses on any asset where you are reaching full return. Good managers will produce better outcomes than bad managers. Vintages in '22 and '23 will likely be better than '24. These are just natural and logical things that we should pay attention to. And the business of direct lending is low barrier-to-entry business, a great business when banks are not active, a less great business when banks are active. And so I would -- I think of it in many ways as levered beta. I don't think it is really all that exceptional an asset class.

I think Jamie's comments are often misinterpreted. The way bank comments are misinterpreted. To talk about the differences in the system and where I do disagree with what he had to say, it had to do with transparency. So I was on a stage not dissimilar from this, but with every bank regulator and every bank's CEO in the room, and the Chairman of UBS, Colm Kelleher, in his last remarks said -- the question was, where is the next blow up? And he said, well, of course, in shadow banking, and got off the stage. And I was next up, so we had to start there, and I'll make the same comments I made there, which is Jamie is an amazing representative of the banking industry. But every dollar that moves out of the banking industry and into the investment marketplace makes the system safer and more resilient and less levered.

People were shocked, like how could that be? Well, a bank is levered 10x to 12x. When you move credit out of a bank to an institutional investor, it gets levered 0. When you move into a mutual fund, it's levered 0. When you move it to a BDC, it's levered 1.5x. When you move it to a retirement services company, it's levered 8x. It is deleveraging. It makes the system more resilient. This is math. This is not macro and speculation. Transparency. The typical bank disclosure, pick up any bank, loans to customers, loans to companies. Pick up our disclosure, every security every quarter, which is more transparent.

Then you go down the risk, maturity transformation. Banks borrow short and lend long. Therefore, they are really good at short-term lending. They are really bad at long-term lending. Investors borrow long and lend long. Therefore, we further reduce risk in society by not having value transformation. And we're not access to deposits. There's no government guarantees. There's no systemic risk.

But the one that really, I think, open people's eyes to the difference between public and private was the following. The typical bank is 60% to 65% investment grade. What is Apollo's balance sheet? 90% investment grade. Who holds more equity capital as a percentage of assets, Apollo or the typical money center bank? Apollo. So you look at the system, and I don't think it's either/or. But I do think that one has to start at the very macro foundations. Credit in any society is a function of GDP. And credit can come from one of 2 sources, the banking system or the investment marketplace. There is no third choice.

Regulators around the world, governments around the world, for the reasons I have just stated, are on the margins asking banks to do less and investors to do more. That does

not mean the banking business is going to shrink. That doesn't mean banks are going to go out of business. But it does mean that we're going to see higher growth in private markets than we will in public markets or in bank markets for credit because it is appropriate to do that.

The final point I would make is, are we the competitor of the banking system? I don't think we are. We don't want the bank's client because we can't provide their client anything, no equity, no M&A, no advice, no hedging, no derivatives, no foreign exchange, no payments, no credit cards, no nothing. We want the asset. In the new capital regimes, the banks don't want the assets we want. And so when a bank loses a client to another bank, they have lost the asset and the revenue. When the bank loses the client to us or to the investment marketplace, the bank generally gets a fee for providing advice and keeps the client. We are finding symbiotic ways to work with the banking system more and more and more. And I think the press has it wrong that it is not either/or. It is just on the margin where capital comes from.

Patrick Davitt: Makes sense. So as you take a step back from that about these broader changes, the changes we've seen over the last 10 years or so in the markets, what do you think the next 10 years of growth is like for the alternatives industry broadly and Apollo specifically?

Marc Rowan: So I think you have to put it into 2 places. I'll say for one -- I'm going to start with an observation. We're not an asset manager. I don't think our industry are asset managers, even though we're at the asset management conference. Because if you think about what an asset manager does, most people have judged asset managers and the health of their business by AUM, like as if money raising is the only thing we need to do. It actually is not. An asset manager can take an infinite amount of money and if you give them an infinite amount of money, they will invest it. In our industry, we can only take money that we can invest at excess return per unit of risk.

Because if we start taking too much money too fast and we outstrip our capacity to make good investments, we will commoditize our business. We can do that for short periods of time because we can't perfectly match inflows and outflows, but ultimately, I do not believe our business is constrained or should be judged by capital raising. Capital raising is a sign of health. It's a sign of reputation, but it is not the primary benchmark that I think we need to worry about.

So if you asked the outlook, it's pretty good like -- so think about our business, think about the -- I'll talk about 3 big trends on the capital side. Our business has been built over 40 years out of the smallest bucket of institutional investors around the world, the so-called alternatives or private bucket. That's the whole business. The whole thing exists out of that bucket. All of a sudden, we have another source of capital. We have this thing called retail high net worth. We have a market that is not allocated to privates in any significant way that will, in my opinion, be the size of institutional over a 10-, 15-, 20-year period. That is a really positive source of capital.

I then look at retirement, which applies to us and KKR and 1 or 2 others but doesn't apply to the industry, we're all getting older. Western societies are getting older. The need for

retirement income, the failure of governments to provide, the decline of DB plans, you pick it. Retirement is a growth business. Retirement is another source of capital raising that is ultimately powered by private investment grade or fixed income.

The third, and I think the most interesting trend and one that I think will be the most controversial with this crowd is we are rethinking the whole notion of public and private. So if we built the whole business out of the private bucket, this little allocation, why was it little? Well, because we thought it was risky and public was safe. And it was, private was venture capital, private equity and hedge funds and public were diversified portfolios of stocks and bonds. But 40 years later, what if we're wrong? What if private is risky and safe and public is risky and safe? Why don't we have a public bucket rather than a private bucket?

And we're actually watching this change happen. So if you think about institutional investors, they are in the U.S. and Europe fully allocated in their alternatives bucket, still growth in the Middle East and Asia. We have an opportunity to serve the fixed income bucket, which is 50% larger than the alternatives bucket and has almost 0 exposure to private. And the reason it's going there first is because there are external forces, external gatekeepers, rating agencies who actually can tell a CIO that a single land in the public market and a single land in the private market is the same risk. And then the knowledgeable investor in fixed income understands there is no liquidity in publicly traded fixed income outside of the top 20 bonds. Five days to sell an investment-grade corporate.

So they're not giving up a lot of liquidity between public and private. They have the same credit rating between public and private. The same quality of company. In fact, the same company can be both public and private, and they can explicitly measure the excess spread, call it, 150 basis points. That is happening. It's happening every day. It's happening $1 billion, $3 billion and $5 billion at a time. And so that is a private investment-grade activity.

That's why you're starting to see people talk about something we've been talking about for a long time, origination. We are, I believe, going to have a plentiful source of capital for our industry for private investment grade as institutional investors begin to look to their fixed income buckets for excess return. And they're getting excess return, and they can explicitly manage it.

Longer term, why won't the same thing happen to the equity bucket? 80% of companies in the U.S. and Europe over $100 million of revenues are private. 80% of employment is private. Public used to mean diversified portfolios of stocks and bonds. 8,000 public companies is now 4,000. 60 companies go public a year, more than 60 go private. The universe is shrinking. Most institutional investors have their exposure through indices. 10 companies are 35% of the index. And basically, there are quarters determined by NVIDIA (ph).

Why won't they also, over time, migrate some of their public equity bucket into equity that is private versus private equity? Remember, private equity is a product. It takes equity, you add active management, you add leverage to get very high returns

appropriate for a small risky alternatives bucket. But why don't they want access to the 4,000 companies that are not public? I think they're going to. In our business, we call this hybrid. We're watching capital form out of the large family offices, think Qatar, Abu Dhabi, Saudi. And we will continue to see capital for them, but the product set doesn't exist yet. It's not mature. We're all experimenting.

So the capital raising side of our business, I think, is retirement, increased access to our institutional investors, other buckets that are much larger than the one we're in, and retail high net worth. All 3 really positive for our business. What's the carburetor? Carburetor is origination, culture and origination, if I'm honest.

Patrick Davitt: Just to follow up on that. I think you guys coined this term fixed income replacement. It sounds like you're talking about equity replacement now as well. Where do you think we are in terms of that migration of large institutional investors, public fixed income allocations moving into--

Marc Rowan: The season hasn't started yet. We're just stretching out now. We're stretching in Tampa, to use a baseball analogy. We are in the beginning stages, and I caution everyone, this is not -- you asked how I see it. So I see these 3 massive sources of demand for private assets. I don't think, over the long run, people who have a good reputation, who produce excess return per unit of risk are going to struggle for capital. I actually think when we do this in 3 years, we're going to be dealing with who can originate in size and scale and produce excess return. So I think about an industry where we don't yet have the right understanding of what we're constrained by. And even in our industry, because we all grew up as small firms and we scale -- capital was always our barrier, we forget we've actually matured. And we really do run the business around origination.

Patrick Davitt: On that, you've been hinting that a big part of the upcoming Investor Day will be a new origination target of $200 billion to $250 billion a year, about 2x from where we are now. So within that target, how much do you think will come from the origination platforms? How do you tangibly scale the volume in those platforms? And then maybe speak to the benefits of owning and controlling those businesses rather than taking them in-house?

Marc Rowan: So I guess I look at it 3 ways. I think origination is the lifeblood of our business, and I don't want to be constrained by any one type of origination. So we originate 3 different ways. One, we originate through bank partnerships. We actively do this. It's great. But banks can change their mind. Banks can pit one against the other. I want to maintain control of my business, in addition to being a good partner to the banking system.

So we have built origination internally. We go to France. We do a series of financings for Air France. All of a sudden, corporate France is saying, hmm, long-term source of capital. We go to Germany. We do it for Vonovia. We go to Japan, and we do it for Sony. We go to the Netherlands, and we do it for AB InBev. We go to the Middle East, and we do it for ADNOC. We come to the U.S., and we do it for AT&T. Those are things that we do in-house, where we are creating excess return per unit of risk. And we're educating CFOs and treasurers that there are public capital markets, private capital markets, bank capital markets, and each are appropriate for different things. No one is doing that because no one has the need that we have.

And the third thing we do is we originate through platforms. I like all 3, but platforms, to me, give me granular risk, and it gives me 3 different sources of excess return. So if you think about what a platform does, a platform has really replaced what a regional bank once did. It's not replacing what JPMorgan or Citi or anyone does. The $100 million borrower of a high-quality credit is not going to the public markets because it's too small. It is not really part of the money center outlook. It's too small. They historically went to their regional bank, and now they're coming to us.

We aggregate those loans. So we're dealing with them on a bilateral basis. We're a good source of capital. That puts us in a very good position without a lot of competition because there's a lot of competition for levered direct lending because that's a juicy asset class. There's not a lot of competition for private investment grade. We get excess return through making those granular loans and doing the credit work.

The second thing we do is that when we aggregate enough of them, we securitize. We get a second form of excess return through optimization of securitization. We sell off the AAAs. We sell off sometimes the AAs. We keep the single A and the BBB. That's what we want. We sell the below investment grade to the public investment marketplace. Through securitization, we actually pick up a second source of origination premium.

And finally, by not dealing with a dealer, by keeping this in-house, we're not paying a dealer spread, a fee or anything else. That source of origination gets priced every day or every week. It's diversified across the economy. It's diversified across sectors. No one platform is too big. Can they be bigger? Yes, they can be bigger. I mean, I look at Atlas, which is the old Credit Suisse securitized products business, circa $30 billion business today. I think that'll be $100 billion business. That is what its peer set is. What does it take? It takes time.

But I also caution, I don't want any one platform to be too big. If it becomes too big, then you have to feed it every day. I want to be diversified and not have to do business if I don't like business. And so when something gets too big, we sell it. So think of what we did with Amerihome. Amerihome was a mortgage company. We scaled it from nothing to $60 billion, $70 billion a year. It was way too concentrated for us. We sold it. We want excess return per unit of risk. We want excess spread, but we also want diversification. And that's what's happening in our business today.

But I come back to -- I think the whole industry, the way you look at our industry is actually going to mature. Yes, AUM growth, capital raising, really important sign of health. I believe the quality and quantity of origination will ultimately be the determining factor to success or failure.

Patrick Davitt: Supposed to be, obviously, an adjacency of this theme, I guess, is bank partnerships broadly. Are you thinking about establishing any large banking partnerships like some of the others have done? And does your alignment with Athene helped business--

Marc Rowan: Done. I mean, we have lots of bank partnerships, really sizable. This is normal course business. We are symbiotic with the banking system. And if you -- what's interesting --

what's worth mentioning, everything that's talked about publicly is talked about direct lending. Direct lending is like the tail on the dog. Everything on a bank balance sheet, everything is private credit. Loans to customers, loans to companies, loans to mortgage, this is all private credit. It's not that we're not interested in direct lending. We're really interested in direct lending, but it's a small market relative to the much larger market, which is everything else. We are one of the few and the largest who want private investment grade.

In and of itself, private investment grade is not a great asset management business. Let's start with that. It's not 2 and 20. It's not 1.5 and 20, 1.25 and 20. It's not 1 and 10. It is 50 bps flat. You're basically dealing with a nonpromote but really nice asset management business. If we did not need the product, we probably would not have started in it. So you look at what we have now, there are 4,000 people who work in 16 origination platforms that we've put together for $7 billion to $8 billion. You don't show up and do that unless you need the product yourself. You would not spend that money, live with that complexity unless you really needed the product.

So we go back many years. We were a really large, fast-growing Athene with a smaller origination platform. Athene took 100% of everything. Okay. That was great to start. Now the curves have reversed. Now origination is going like this, and Athene is growing, but not as fast. And we're doing what you would expect us to do. We're diversifying. Athene does not want 100% of any risk. They want 25% of everything and 100% of nothing. So we built a third-party insurance business, and then we built a third-party institutional business, fixed income replacement business. And you will watch us do this in retail. You will watch us do this in interval funds. You will watch us do this in ETFs. We have a whole interesting world out there, but it all starts with -- the ecosystem doesn't work without origination. That is what is in short supply.

Patrick Davitt: Have you ever said that before, ETF?

Marc Rowan: I don't know I just said it.

Patrick Davitt: Believe that's a first. You talked a lot about culture, and I think you've said in meetings in the past that that's what you spend most of your time on. So as we've seen you and many firms change coming so big, so fast can impact culture. So how would you describe the culture today versus 5, 10 years ago? And what are the most important components to preserve that as you keep getting larger?

Marc Rowan: Look, we are -- so I think culture has been evolved, and it's been evolved, in part, as a result of business evolution and, in part, as our conscious effort to change what we do. So think about all of us, the whole industry. We were all $40 billion of AUM in 2008. We're on the private equity business. Private equity, you make 10 decisions a year and everything else is ceremony. 10 decisions a year can be made by a small group of people around the table with line of sight to everything. If you try to maintain that decision-making style as the firm scales, the quality of the systems start going down because a small group of people can't know that much about everything. And the line outside the CEO's door gets longer and longer, and the entrepreneurs get pissed off.

That is essentially what had happened in our firm and on our industry. And so we've had to be really explicit on our strategic plan. I wish we were not laying out for our competitors our 5-year roadmap, but that's the price of what we do. Our employees need to hear that because they need to know how to make decisions, where we're going. And then you want to make the place fun to work at. You want to focus on a constant battle against bureaucracy, make it fun to laugh at yourself. Probably the single most important thing we've done is we made it safe to fail. I think I am right 2/3 of the time, and I fail quickly and fix it.

What's my expectation, therefore, of everyone else? People don't get fired for making a bad decision. They get fired for making no decision or not recognizing that they failed and not fixing it. And so it's taken a while to make it safe for people to behave entrepreneurial, to behave like owners and to understand that. And it's working and it's happening. And we are -- we successfully recruit 300 people a year out of the banking system. And I cannot remember the exit interview in the last 5 years where someone said, I've really enjoyed my time at Apollo, but I'm going back into the banking system. It just doesn't happen. And we have to -- like I don't laugh at that.

I think it's a cautionary tale for us to understand that our entire business is based on judgment. And the judgment resides in the 200 partners at Apollo, and therefore, I want those 200 partners to spend the entirety of their careers at Apollo. So the North Star for me is to make Apollo the single best place to be a partner in financial services. Because if I do that, then the principals who are coming up through the business will look ahead and they'll say, this is great; it's worthwhile. And then the young people involved in the business who are working really long and really in the office, they will look ahead and they'll have 2 amazing generations of mentors. So if I start at the other end, it doesn't work. I have to make the place amazing. And so that's what we do.

The culture is built around making it the best place to be a partner in financial services, which is not one thing. Since there are 200 partners, it's 200 things. I wish they wanted the same thing. I would just give it to them, but they don't.

Patrick Davitt: So a lot of what you're doing obviously fits into your retirement broadly. You and others are clearly making the "global retirement crisis" a big opportunity for the alternative managers. So aside from the obvious demand for annuities that comes with this, what kind of products are in the lab to address the retirement crisis broadly?

Marc Rowan: So I'm going to be somewhat abstract for a bit. So people need more money for retirement. They need higher returns. Sometimes, they access higher returns through private markets in a nonguaranteed fashion. They can do that through variable annuities, but they're also doing it indirectly.

I mean, think of the most successful retirement system in the world, which is Australia, superannuation. What's the magic of it? What the magic is they've essentially given the 401(k) market access to 30% private investments over 40 years and produced a better outcome. So we offer private market access to retirees directly through products, nonguaranteed products like variable annuities, and indirectly through managers who select us and others to do it.

We also offer it in a guaranteed form. So what is Athene? Athene started from 0. It's now, with its European peer, $360 billion. We went from no organic origination to $70 billion a year of organic origination. How? The products are not that different. We cleaned up the products. We have a really low cost of OpEx because we are a scale player. We can take some of the OpEx premium, if you will, and offer it to consumers.

We can also take some of the asset premium and offer it to consumers, and it turns out consumers prefer more to less. We've gone from 0 to $70 billion of organic origination by taking a small portion of the excess spread and a small portion of what we save, putting it in the economics of the product while, at the same time, still earning north of 15% ROEs for the last 15 years. That's allowed us to scale capital. And that, to me, is the interesting part of what's happening today.

Selling an annuity, entering the retirement market can be a low-return exercise or it can be a really high return exercise. How do you judge? You need asset origination to be successful. Almost no one has asset origination at scale today other than us. KKR building doing a good job. Almost no one has operational efficiency because no one's at scale. Even the big players we think of as being big, they're in 7 different lines of business. They have no OpEx and efficiency. You need a low-cost source of liabilities, which only comes from building out organic origination, and you need capital.

If you don't have 3 of those things, other than capital, how do you get returns today? Well, you move offshore to Cayman, and you try to put up half the capital to fake it until you make it. I think that window is going to close. I think that is not going to be what the U.S. industry allows to happen. Because they are too concerned of capital risk to the industry, and regulatory crackdown is coming. I think it's in a good place. The world's getting older.

What are we not doing? We're not offering guaranteed retirement income, lifetime income. We haven't simplified the paperwork down to a single page 401(k) market, bulk annuities, bulk annuities to corporate. Right now, our product is distributed through intermediaries, and I believe it will always be distributed through intermediaries. But our product embeds that cost when we figure out how much is going to the consumer. Imagine if it went through fiduciary channels where that cost was not there. 401(k) target date funds. These are all opportunities for long-dated fixed income in guaranteed and nonguaranteed format, which I think is the more intuitive way to think about our business.

Patrick Davitt: We've been talking about alts and 401(k)s broadly, I think, for 20-plus years. Tony James wrote a book about it. Do you really think there's any movement on that front? And do you have any optimism that we could be moving in that direction?

Marc Rowan: So it's happening. It's already happening. It's happening in small size. I personally believe we are one administration away from liquidity being included in 401(k)s, which is different than risk included in 401(k)s.

But is that a good or bad thing for our industry? I don't think it -- I don't -- it is one more source of demand for private assets. And this is -- if I make one point to you, like how to think about this, I think we've been -- we've watched the alternative private markets industry mature, and we've mistaken what's happening now for really what the business is about. We have these immense shifts, retirement, high net worth, institutions rethinking public versus private, 401(k). Anything you come up with, these are all sources of demand for private assets that offer excess return per unit of risk.

I believe we need to spend more time focused on generating assets that produce excess return per unit of risk, and it is a different way of thinking about the business. So if you think our industry is capital-constraint, then the right thing for a CEO to do is to raise every dollar, every day, all the time, always be selling. Take all the money and invest all the money because we're capital-constrained. If you think our industry is origination-constrained in the short term, because you will grow origination, then you want to earn as much money from each dollar of origination as possible. We have decided that we are, as an industry, origination-constrained.

How do you know? Well, look what we do. If you think you're origination-constrained and you want to earn as much money from each asset, in a perfect world, you would own 100% of every asset. All right. World is not perfect. Diversification and capital have forced us from owning 100% of every asset Athene into other businesses. What are the other businesses? We have something called ADIP. ADIP is a partnership where we are 1/3 of the capital and investors are 2/3 of the capital.

And for putting up that capital, investors actually pay us a fee to do it. So there, we get a full asset management fee and 1/3 of the profit. Okay. We have yet another business. It's called the third-party asset management business. There, we don't earn any of the profits, but we earn a full asset management fee. And then we have one more distribution channel called syndication, where we produce excess return per unit of risk, and we have all we want as 100%. We have all we want as 30%. We have all we want in fee-based funds. Now we syndicate it, and we produce fees.

That whole flywheel depends on origination of assets. I believe our investors, I believe our analysts, we've -- we haven't yet matured the thinking. That doesn't mean one is better than the other. It just means there are different forms of how you capture the premium from originating scarce assets. I believe we are in the scarce asset business, not in the scarce capital business.

Patrick Davitt: That's a good segue to your efforts in the wealth channel more broadly. You've been striking a fairly competent tone that you'll be one of the big winners in that channel. But interestingly, I sense that many investors I talk to don't always think of Apollo when it comes to this theme. So what do you think the Street is missing about your positioning in the wealth channel? And why are you confident that you'll be among the handful of winners there?

Marc Rowan: Well, I start again in the macro sense. This is an opportunity that is going to go on for 20 years. We are watching the maturation of an industry the same way it took a long time for

institutions to come into private assets. I think it's going to take a long time for individuals to come into private assets.

If I want a glimpse into the future, I can look at the most sophisticated private investors, family offices, ultra-high net worth. We're watching portfolios that are north of 50% private assets at this point, which is different than risk. They're private versus risky. Family offices are well-established and well down the road in doing this. Ultra-high net worth is right behind them. And so I think it's happening, and it's going to be -- it's a massive market.

The second is it is an opportunity that is available to large firms with multiple products. It does not make sense to build out a wealth offering for a single product or a single strategy, and it is a massive undertaking. It is 200 people. It is an infrastructure. It is an operational infrastructure. And so you don't do it if you're a mid-market PE firm. It's not worth your time.

And then I think each of us is in the wealth market. Each of the firms that have a right to win in this opportunity are in the wealth market in a slightly different way. We believe that we should take in the amount of capital that we can invest. By my calculation, we're the second or third in the wealth market. I'm very comfortable with that position. As we said on the call, we raised $1 billion a month.

Everyone is approaching the product set differently, but I think wealth is not one market. There's a pyramid. The top of the pyramid is family office and ultra-high net worth. Those wealth clients, we serve directly. We offer them institutional products that have binary outcomes. We don't think of them as needing protection from risk and reward. They are sophisticated investors, and we treat them like institutions.

High net worth, we do not reach directly. We reach indirectly through RIAs and through wealth managers and broker dealers. And we have not, for the most part as a major part of our offering, put binary outcome products in that marketplace. We do it on demand, but we don't do that as a strategy. First, if you think you're limited from a capacity point of view, why go to a more expensive channel?

And second, ultimately, this is about reputation and not blowing up these clients and having them experience excess return per unit of risk and taking all of their money. And the third thing I'll say is doing it in a balanced fashion where you try and grow the business consistent with your ability to deploy the business. Taking all of the money, if offered, in a low interest rate environment and investing it leaves you exposed to a rate move where even if you're the best investor in the world, you own Austin real estate. And your reputation will be damaged in that. And if you think you're in the first inning, I want to play it for the long game.

Last piece I'll say, and I will come back to ETF because I think it's interesting for the audience, the vast majority of the wealth market, we will not serve directly. We are not an efficient producer of anything. At 9 West 57, nothing gets approved -- produced efficiently. The same is true at 345 Park. The same is true at Hudson Yards. These are not efficient locations of low-cost bastions of manufacturing efficiency. They are great places

to work where you have good ecosystems of risk and reward and intelligent investing. But we will not build out the infrastructure necessary to serve these things. We will reach these other clients through their existing relationships, most likely with products that combine alpha and beta together.

They already have the relationships. They already have the trust. They have the systems. They have the capacity to reach. And we will create opportunities for them to access private markets, their clients, through a combination of 70% beta, 30% alpha products. Initially, you'll see this in credit. But eventually, you will see this in the whole landscape. And you will see from us 2 this year, 2 that we think are really interesting.

Why do we not spend a lot of time talking about it? I'll tell you. In the interviews I've done with the people who are really good at this, the Fidelities, the T. Rowes, the others. I always ask the product people, when you launch a product, you know it's going to be successful. I'm now at 100% no one knows. So we are in the testing phase. None of us can tell you. We can tell you that there is a logic to giving investors access to private markets for the same reason I think institutions want access to private markets. The packaging of it, the product form, I have no idea what is going to resonate with. And so let us show you success. Let us show you market acceptance. We're going to be at this for really long time.

But the ability to win in this market comes back to origination. Announcing the partnership is great. But if that is taking a fixed pool of origination and putting it in another channel that has higher cost, that is not a positive to your business. If you are scaling your origination and this gives you a diverse source, that's a positive for your business. I do think -- like we really do think about how we maximize the value of constrained and growing origination against this backdrop of demand for private assets that I see as really, really positive.

Patrick Davitt: Helpful. So no new toys has been one of your mantras the last couple of years, and I think you guys have largely stuck to it. But I sense there might be some moderation of the messaging more recently. Am I right to think that you might be entertaining the idea of some new toys now?

Marc Rowan: Well, it's definitely some new toys. I would say they're not new toys. I would say some science projects. But let's start the other way, which is we've seen in our industry sizable mergers, sizable acquisitions. I do not think we are going to undertake a sizable merger or sizable acquisition. Given how much is in front of us, given how positive the trends are, I would rather be on offense the whole time than spend my time consolidating.

I think the consolidations in our industry are really, really difficult. Firm X buys another firm that's sizable. The entire existing team at Firm X is now dispersed. I just have seen this too many times. I think most of the time I've seen it have been traditional asset managers trying to access alternatives and not realizing that the business is ultimately dependent on 200 partners who need to be managed every single day, that it has almost none of the characteristics of their traditional business. It's a full-time job managing just 200 people. And I think it will turn out, for the most part, badly.

And having said that, if you think about private markets the way I think of private markets, so you're right, I started by -- our industry started in a risk bucket, and we did a really good job managing risk, which is how we got to be $40 billion. And we didn't screw that up, so investors trusted us to grow. But we were still managed out of this risk bucket. And now I think we're going to have access to the fixed income bucket with private investment grade. And longer term, I think we're actually going to have access to the equity bucket, for equity that is private, but not private equity.

I think this is just so positive. But the private ecosystem lacks lots of things that exist in the public ecosystem, daily pricing, forms of liquidity, forms of leverage. All of these tools are other forms of profitability and margin around our business that are not dependent on origination. And I think you will see us and others build out profit streams the way we have in syndication, build out profit streams that are not dependent solely on origination because origination is, in my opinion, 100% spoken for. Every time we originate something, it has a home. When it goes on the balance sheet, it goes into ADIP, it goes into third parties or it get syndicated.

Patrick Davitt: So to conclude, let's take it all together. You're guiding to 15% to 20% fee earnings growth this year. So for those of you -- for those that might not be as familiar to the story, could you maybe quickly unpack the major building blocks to that growth outlook? What are the key swing factors within that 15% to 20%? And what could result in growth at the high end or even above the target range?

Marc Rowan: So we -- at year-end 2023, we were a $650 billion asset manager, and we were a $360 billion diversified retirement services company with most of it in New York in the U.S. And we earned circa $5 billion without carrying, without earnings. On the asset management side, that's $500 billion of credit and $150 billion of equity. The equity comes in 2 flavors, $100 billion of private equity, $50 billion of something called hybrid, think of that as equity that is private, but rather than private equity. Five years from now, I believe our credit business will be twice its size. Our private equity business will be about the same size, and I think our hybrid business will be close to $200 billion.

To make that happen, I need to originate and doubling the business is not as awesome as it sounds because if I unpack the $500 billion business today, it's $300 billion of alpha and $200 billion of beta. To double the business, I need to generate $300 billion of alpha over the next 5 years. I like my chances. I like the regulatory trends. I like the tailwinds. I like the bank partnerships. I like the platforms. I like the fact that we have a running start. I like the fact that we're serving fixed income replacement. I like the fact that we're feeding our own retirement services business. It's really good.

In private equity, we did not do a bunch of Austin real estate, enterprise software. When you look at Fund IX and Fund X, which are the relevant funds for us during this ecosystem, I will modestly say they are killing it. And I believe that, that will mean that we are in the haves rather than the have-nots when we get to Fund XI. And I think that will be really important. Having said that, private equity is a farming business. You plant, you harvest, you plant, you harvest. Done well, you should harvest more than you plant. Otherwise, they don't give you more seed. But I don't think it is a growth business from an AUM point of view.

In the hybrid business, I think hybrid is the one to really watch. It is a good asset management business in that it offers high fees. It offers carry. It requires skill to originate. There's not been a lot of capital formation because investors have been barbelled, either they've been fully public and indexed or they've been private and want high returns. The result has been really good returns in hybrid for a really long period of time. I expect that to continue, and I see us winning converts every day in hybrid. And that's the challenge.

And so I think that business grows, as I've said, 15% to 20%. And if we do a better -- if we do a good job adding on to the profit streams that are not dependent on origination, we'll grow at the high end. If we do a less good job, we'll grow at the low end. I see the trends as really positive. And I don't want to say I don't worry about the business because I worry about everything. And I don't think any of it is easy. But I'm not paralyzed by that.

In the retirement services business, I -- we've said that we will grow 10% to 15%. This is a choice. If we retain more of the business 100%, we generate less capital to buy back stock, but we hold more business on balance sheet and we grow faster. We look at the business in its normal return profile of about 15% ROE. We look at our stock price, and we like our mix of business. So we say 10% to 15% growth over a 5-year period in retirement services. Last year, the returns were so high in the business that we actually issued equity for the purpose of capturing business.

We are responsive to market conditions. So if returns stay where they are, I think the low -- the guidance we've given is the right one. If the returns widen out because of product or market dislocation, which we haven't really talked about because the sun is shining every day here, we are -- the word on it -- and the last one I'll say is we are not positioned pro-cyclically. You look at everything, whether it's Athene, whether it's our BDC, 100% first lien, lowest leverage, big companies. We're prepared for a rainy day. A rainy day will be where we all get tested.

Patrick Davitt: Great. Thank you, Marc.

Marc Rowan: Thank you.