Apollo Global Management (Q3 2022 Earnings)

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Corporate Speakers:

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- **Scott Kleinman:** *Co-President-Apollo Asset Management, Inc. & Member-Board of Directors, Apollo Global Management, Inc.*
- **Martin Kelly:** *Chief Financial Officer, Apollo Global Management, Inc.*
- **Noah Gunn:** *Global Head-Investor Relations, Apollo Global Management, Inc.*

Participants:

- **Patrick Davitt:** *Analyst, Autonomous Research LLP*
- **Michael Cyprys:** *Analyst, Morgan Stanley & Co. LLC*
- **Finian O'Shea:** *Analyst, Wells Fargo Securities LLC*
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- **Alexander Blostein:** *Analyst, Goldman Sachs & Co. LLC*
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- **Benjamin Budish:** *Analyst, Barclays Capital, Inc.*
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PRESENTATION

Operator:

This conference call is being recorded. This call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements.

Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the company's website.

Also note that nothing on this call constitutes an offer to sell or solicitation of an offer to purchase an interest in any Apollo fund. I would now like to turn the call over to Noah Gunn, Global Head of Investor Relations.

Noah Gunn

Thanks, operator, and welcome, again, to our call this morning. Earlier today, we published our earnings release and financial supplement on the Investor Relations portion of our website.

For the third quarter, we reported fee-related earnings of $365 million, an increase of 14% year-over-year or $0.61 per share and spread-related earnings of $578 million or $0.96 per share. Together, fee and spread-related earnings totaled $943 million or $1.57 per share. And in total, we reported adjusted net income of $801 million or $1.33 per share for the third quarter.

Joining me this morning to discuss our results in further detail, Marc Rowan, CEO; Scott Kleinman, Co-President; and Martin Kelly, CFO. And with that, I'll turn the call over to Marc.

Marc Rowan

Thank you, Noah. Good morning to all. Apologies in advance for sounding like a losing Texas football coach. I will do my best. I thought where I'd start is really to start with the macro or the market backdrop. I have a chart on my office wall that traces the movement of the S&P following the 2008 financial crisis and following the beginning of tightening in this round by the Fed. They are almost on top of each other.

That is not to imply that we are going to have or experience the same sort of events that followed 2008, but I do believe it is an important comment on market psychology and investor sentiment.

What we expect would happen when we printed $8.1 trillion as a country? Well, exactly what should have happened. Assets almost across the board elevated in price to multiples and levels we had never seen before. Risk was off. Everything went up. Interest rates went down.

Now that we have begun tightening, we are doing nothing other than resetting to more normal levels. We act, and the market backdrop is somehow that low interest rates and excess liquidity are the norm. They are not, certainly not over my nearly 40-year career and not over any sort of long-term investment cycle.

We have an entire generation of investors, investment analysts, who have really grown up just seeing the market go in one direction. And we now all know it goes both ways. If I just chart what happened so far this year, venture capital valuations are down 60%, Nasdaq down 30%, S&P down nearly 20%, Barclays AGG down 17%.

This is an amazing time for alts, alternatives, particularly for credit. Investors have now discovered that everything is correlated to the Fed. And they are also discovering that most, if not all, of last decade's investment acumen was really nothing other than market beta and in some cases, nothing other than levered market beta.

Over the past decade, investors kind of got a free ride. There was not much need for alternatives as markets moved primarily in one direction, yet, as an industry, alternatives grew tremendously. When I think about the market backdrop we are in today, alternatives should shine. After all, as an industry, we exist because we produce excess return per unit of risk. And for the first time in a decade, investors are asking not just about the reward, but about the risk associated with investments.

Alternatives offer diversification, in many instances, downside protection and an escape from correlation and indexation. That is the backdrop that I see for our industry. For us, this is a particularly good time. We did not chase a hot dot of growth at any price over the past decade. Our business continues to be guided by 3 fundamental principles: purchase price matters, excess return per unit of risk and aligned investing.

As a result, we are on offense. Just in Q3, we deployed $37 billion, $175 billion in the last 12 months. Dry powder now exceeds $50 billion. We excel in this kind of market. We are leaning in. We are out talking with investors, and we are apologizing for nothing. By and large, we did what we were supposed to have done in a period of market access, which was avoid potholes.

Scott will take you through some detail of our activity across yield, hybrid and equity and in particular, how active we were in the U.K. as a result of LDI, which is the first, I believe, of many market hiccups.

The proof ultimately of the strength of a franchise shows up in the numbers. As Noah already mentioned, record FRE of $365 million, up 14% year-over-year. Record Apollo Capital Solutions revenue is north of $100 million, as Martin will take you through. Record normalized SRE of nearly $600 million, as Martin will take you through again. $100 billion of year-to-date inflows, well exceeding the $80 billion target that we put out for all of 2022 at our Investor Day last year.

In terms of performance, top-tier investment performance. Fund IX gross and net were 40 and 26. Direct origination strategies were up 10% year-to-date. Our Athene alternatives portfolio was up 8% in Q3 versus nearly 21% down for the S&P 500.

Let me now back up a little bit and talk about each of the individual businesses. Retirement services is generating more volume and higher spreads. Consumers prefer 4% and 5% guaranteed yields versus 2% and 3% guarantee yields. We have nearly $37 billion of year-to-date inflows. We expect to exceed $45 billion during fiscal '22, and it would not surprise me if we got really close to $50 billion. The momentum in the business is overwhelming.

Not only is the business good, we are underwriting new business at really nice spreads, whereas we used to underwrite around 100 to 110, 115 basis points. We were 130 basis points in Q3, and I expect the basis point spread to increase going into Q4.

In addition, we are experiencing increasing profitability from our net floating rate position of approximately $30 billion. This is a strategic portfolio for us. The decision and the willingness to hold approximately $30 billion of floating rate securities means that we have foregone income that we could have maximized in prior periods in order to set ourselves up with this form of downside protection.

This notion of downside protection and not being a "current period earnings maximizer" is what allows us to be on offense in markets like this. Martin will take you through the direct effects of being long approximately $30 billion floaters in a highly increasing rate environment.

The other nice thing about what's happening in the business is, on average, the credit quality of the portfolio is going upmarket. We have been able to earn these spreads, taking less risk rather than more risk. We've seen minimal impact of capital on capital from ratings migration. 95% of the fixed income assets continue to be investment grade and having excess capital, which, again, is a luxury in our industry, allows us to be opportunistic and on offense.

Let me move from retirement services to Apollo Asset Management. Simply said, we are on track to exceed targets from last year's Investor Day. Martin will also give you some insight into what we expect for 2023.

And as you recall, we made 3 key bets, which were driving our Asset Management business forward, one was Global Wealth AUM at the end of 5 years of $50 billion. The second was Apollo Capital Solutions revenue in excess of $500 million, again, at the end of 5 years and origination volume of $150 billion annually.

Let me review each of those three bets, but if you intend to tune us out, the shorthand is we're well ahead on all of those three bets. In Global Wealth, this market is actually showing FAs and is showing clients that the 60-40 portfolio is not relevant anymore.

I expect and our team expects that 50% of a high net worth individual's portfolio over the next 5 to 10 years will be alternative. It will not be alternative in the narrow definition of private equity or hedge funds, it will be alternative in the way that we mean alternative, which is an alternative to publicly traded stocks and bonds.

In this kind of volatile market, where people are focused on risk reward, we are increasing mind share as an aligned partner. If you look back and you think about what's transpired so far this year, Global Wealth AUM is up $17 billion, $8 billion from Griffin, $5.5 billion from ADS and $3.5 billion from other fundraising initiatives.

$17 billion is great progress on the way to a 5-year goal of $50 billion, which I fully expect that we will exceed. Our positioning in this market is not to be the largest. Our positioning in this market is to be the most innovative, known for purchase price matters, excess return per unit of risk, and aligned investing. The same bargain that we have with our institutional clients is the bargain we intend to strike with our high net worth clients.

AAA, which I discussed in our last conference call, which is our core equity replacement product, think of this as an alternative to S&P 500 exposure. We're already seeing great early tractions. We've been approved by 3 bank platforms, where we expect to launch at the end of this year and the beginning of next year and we see tremendous interest from RIA's family offices and IBDs.

We have already seen, as I detailed on our last call, significant corporate interest. And just to give you a sense, this portfolio is up on an annualized basis more than 10%, against a backdrop of a pretty negative S&P 500. We have been positive in all 3 quarters in 2022.

This is what we are trying to do, is to replicate S&P 500 returns, plus a little, yet with fixed income-like volatility. On ADS, our Apollo debt solutions vehicle, we were up 2.2% in the quarter, outperforming investment-grade bonds, high-yield bonds and levered loans. 90% of our portfolio has been put to work in 2022. Very little of the portfolio is exposed to the "hot dot period of 2020 to 2021".

We are on offense in this vehicle, the same way we are on offense across our business. 99% of this portfolio is first lien, which we continue to believe for high net worth investors and others is the right place to be in an uncertain market, with uncertain government backdrop, with uncertain inflation expectations.

Uncertainty is not a time not to invest, uncertainty is a time to make sure you are getting paid and going in with your eyes wide open as to a range of outcomes. Further in Global Wealth, we are seeing continued expansion, and you will see us in coming quarters, discuss with you what we're doing in Asia Pacific.

But suffice it to say, not only are we hiring, but we are seeing good leverage out of our FWD insurance and Challenger relationships in Australia, FWD in Hong Kong and Asia Challenger in Australia, where we own minority stakes in both.

To get from where we are to where we think this market is going to be is going to require time and education. We view ourselves as innovators in this market. For those who are interested to see what we're doing, just log on to Apollo Academy.

This is a powerful tool for us to engage audiences, allow FAs to earn continuing education credits and to bring thought leadership and expand the knowledge of what an alternative is to the investing public. The early engagement is really strong, and we continue to receive accolades from our channel partners for all that we are doing to prove this market along.

Apollo Capital Solutions, I'll just spend a second on. As an aligned investor, we want 25% of everything and 100% of nothing. That means we are ideally situated to work with our investors to syndicate into sidecars, into managed accounts and other flexible vehicles.

Revenue this quarter was very strong. We had a goal of $500 million of revenue by 2026. We will likely be north of $400 million of revenue for 2022. I'm very optimistic, just like with Global Wealth, where we might think we're likely to exceed our $50 billion AUM target. We are likely to exceed our $500 million revenue target for Apollo Capital Solutions.

Somehow I get the sense that the leaders of these teams have sandbagged us, but that's all good. Our job is to execute our plan, not to chase the hot dot of growth.

Let me now turn to the third, and perhaps most important of our key bets, origination. If you run a business, that is focused on excess return per unit of risk, you do not focus on growing AUM, you focus on growing your capacity to create investments that provide excess return per unit of risk and you believe, as we have seen, that AUM will follow. That is how, in my opinion, one generates a recurring revenue, long-term lasting franchise that investors can trust.

Much of what we do in origination, as you will recall, is what we call fixed income replacement. Most of this is investment grade. We are occupying a slightly different space than most of our alternative peers. And we're occupying it because we think this is the most attractive space, and we are advantaged in this particular area, and we are at scale.

Currently, we own or operate 13 different platforms. A platform to us is a way of generating the kinds of investment grade, yielding assets that we require to consistently grow our business and to feed our growing retirement services and third-party credit mandates.

During the quarter, we announced the signing of a framework agreement for the Credit Suisse SPG business. This would be our 14th platform. We believe that asset-backed origination has the potential to be as large a market as corporate credit. This is a product set that is primarily investment grade that fits extraordinarily well into our requirements for both our retirement services business and the third-party business we are building, would give us access to flow from more than 200 direct clients and accounts.

Should we close on this transaction, which we believe we will, this would allow us to be marginally accretive going into 2023, but strategically very accretive. It will be up to us to turn this into a huge success, and we are optimistic about what this business can be in our hands and are incredibly enthusiastic of moving to a quick closing on this transaction.

Having gone through the business, let me now talk a little bit about what we're trying to build and remind how we differentiate from most other firms in the alternatives industry. Our business model is built for the long term. The vast majority of our capital comes from our yield business, and the vast majority of our yield business is fixed income replacement. Fixed income replacement is top of the capital structure, senior secured.

And that's where we want to be in uncertain times. It's why we can play offense. That does not mean we are not interested in the below investment grade market or direct origination, we are. It is just not the lion's share of our business.

I step back and I think about, again, our industry. Indexation is ramping across fixed income markets and equity markets. And indexation and correlation, it's cousin, are just a huge source of differentiation for us as an alternative manager. The shift from defined benefit to defined contribution, is another huge source of growth. Demographics, another huge sort of growth.

And something not fully appreciated is the changing role of banks, post Dodd-Frank. Many of the fixed income originating assets are the kinds of assets that in prior periods might have ended up on bank balance sheets. Securitization is now how America banks. We estimate that less than 20% of debt capital to U.S. businesses and consumers is provided directly by the banking system. The vast majority of capital is provided by all of you through intermediaries like us and our peers.

This does not mean we are replacing the banks. Quite frankly, we are now partners with the banks. If you think about what a bank wants, for the most part, a bank wants the client. They can sell the client payments and FX, hedging and M&A, and equity and a whole range of services that we and our peers are not really equipped nor do I believe we will be equipped to offer.

What we want is the asset. We want the asset on good terms, without fees taken out in advance, where we can have a direct look at credit quality and credit underwriting to control the documentation pen. Fixed income replacement, I believe, to be a vast market, where we are still in the early stages of its development.

And I'm confident that we can, as a firm, adhere to excess return per unit of risk, while growing our business. That is the challenge that I see. There is growth everywhere in the alternatives marketplace. The key is to grow, while maintaining the core tenet of what an alternative is.

Let me close by saying, we're on offense. A year ago, almost to the day, we laid out a 5-year plan. I'm confident that we're going to meet our targets, which were more than doubling of earnings by 2026. The 3 key bets are well underway, and we have already identified the next level of growth initiatives, whether it's AAA, GP/LP solutions and more to come.

The accelerated hiring of the past few years is now behind us, and now it is our job to focus on simplification. The entire alternatives industry has gone from a small industry to a relatively large industry over a decade.

Much of the industry has grown by adding people. We now, as an industry and as a firm, we need to take time to make sure we are building the systems and operating procedures that will allow us to scale the business and return to operating leverage. Make no mistake, a return to operating leverage is in the cards, and we expect that to happen for us as early as 2023.

The talent we've had most recently with our COO addition by Byron Vielehr and others gives us the confidence that we are well set up to both grow and to be efficient in how we grow. Energy level at the firm is very high, and I want to use this opportunity not just to speak to all of you, but to thank the team, many of whom are listening, for the tremendous work they have done so far in 2022. And with that, let me turn the call over to Scott.

Scott Kleinman:

Thanks, Marc. Apollo is well known for having the ability to thrive in challenging and complex economic environments. Over the past decade, amid a low interest rate backdrop, we worked hard to source attractive investment opportunities and capture excess returns for our fund investors and retirement services clients. We were measured, patient and preparing along the way.

But now we've entered into a particularly favorable backdrop for our investing strategy to shine. We're on our front foot in a market that is ripe with opportunities and we're methodically putting capital to work across our platform.

In credit, the areas where we do the majority of our business, which is fixed income replacement, senior secured top of the capital structure, are still open, and the recent market dislocation is creating an abundance of attractive deployment opportunities for those who can invest with size and scale.

We're seeing pre-financial crisis pricing frameworks, allowing us to generate higher returns with less credit risk. For example, the yield on the CCC index 1 year ago is now the same as the yield on an investment-grade index. We're buying new issue 10-year IG corporate paper between 6.25% and 6.75%. And in sterling, there's single A-rated opportunities yielding 7.25% to 7.75%.

These attractive high-grade assets are finding a home across our platform, particularly at Athene, where the investment portfolio is directly benefiting from rising rates and wider spreads. In the third quarter, the weighted average yield on total fixed income purchases for Athene exceeded the BBB corporate bond index by more than 80 basis points.

In another recent example, our size, scale and ability to move quickly allowed us to step in and provide stability to the U.K. market in response to LDI-related forced selling at a favorable entry point. Trading volumes skyrocketed to 800% above average levels when forced selling began, and we accounted for about one third of aggregate liquidity supply.

Over this 3-week period in October, our trading desk purchased $1.1 billion of AAA and AA-rated CLO paper, yielding over 8%. We're confident that none of our competitors were able to move this swiftly or buy this significantly amid such volatility.

In terms of origination, debt origination volume totaled $20 billion in the third quarter or approximately $100 billion over the last 12 months, demonstrating the significant scale we possess in generating attractive proprietary assets. With less competition in the market, we've increased pricing and tightened the credit box across several of our origination platforms as our financing capabilities are becoming increasingly valuable.

One example of this dynamic is our recent high-grade partnership with Air France. This was a unique opportunity to provide one of the world's leading airlines with a custom asset-backed capital solution to deleverage and improve its borrowing costs. Apollo leveraged cross-platform expertise, including aviation, asset-backed finance, and multi-asset credit, to execute the long-term investment of EUR 500 million.

In private equity, our emphasis on downside protection and purchase price discipline as well as our ability to be flexible across multiple strategies, corporate carve-outs, opportunistic buyouts and distressed situations allows us to seek the best risk-adjusted return in any market.

In today's environment, increased market dislocation is providing many unique opportunities to lean in, creating what we expect will be a significant tailwind for the franchise. We're operating with a pipeline that is 3x as large as it was just this time last year, and we expect to commit a significant amount of capital in the coming quarters.

The credit markets are more exposed to rising interest rates than ever before, and we're diligently preparing for deployment opportunities in distressed debt. With the supply of sub-investment grade debt 3x as large as it was during the financial crisis, and with suppressed default levels for almost 15 years, we believe many corporates will need to deleverage.

Our financing tools are also proving to be a tremendous differentiator, allowing us to buy companies at attractive values when most competitors are unable to transact. This was the case in the recently announced acquisition of Atlas Air through a take-private transaction, totaling $5.2 billion.

While most banks were effectively shut for business on new LBO commitments, we worked with our capital solutions team to structure and anchor a preferred equity tranche, reducing the required debt commitment, while enhancing return potential and downside protection.

This example is one of many as our ability to deploy capital in this sort of market backdrop is greatly enhanced by our integrated capital solutions business. It's worth highlighting that we strategically invested in this business over the past year as we've previously told you, and now have a dedicated team of approximately 40 professionals. We worked diligently to align the team with several newer areas of growth across the platform and organize our corporate coverage model across thousands of entrenched relationships.

As Marc noted, our investment has begun bearing fruit, as we generated record quarterly transaction fees of $105 million in the third quarter, of which the vast majority is from capital solutions fees. In this backdrop, we're acting as a market stabilizer, providing liquidity in stressed segments of the market and helping our banking partners work through a backlog of hung deals.

While we acknowledge that transaction fees can be lumpy on a quarterly basis, we're constructive about the strategic progress we've made and remain confident in our team's ability to continue to drive growth.

The robust ecosystem of asset origination, capital deployment and market connectivity are crucial components of the excess return that we diligently strive to generate for our clients.

As demonstrated in the third quarter results, the core tenets of our investing philosophy, purchase price discipline and downside protection are clearly setting us apart. In a public equity market backdrop that was down 5% in the third quarter and 17% over the last 12 months, our private equity portfolio had flat returns and appreciated 8% over the same respective periods.

Revenue and EBITDA trends in our funds' portfolio companies are up meaningfully year-over-year, and they're actively managing margin risk by implementing cost-saving measures and passing through price increases. Elsewhere, our hybrid value portfolio continues to perform well, appreciating 1% in the third quarter and over 4% year-to-date.

In our yield strategy, we're really a performing credit investor that looks to make reasonable loans and get paid back. Our corporate credit and structured credit strategies appreciated 1% in the third quarter, while our direct origination portfolio appreciated over 3%, showcasing disciplined credit underwriting and superior security selection.

Athene's alternative portfolio generated an 8% annualized return in the third quarter, continuing to benefit from the diversified and defensive characteristics that it has exhibited over time. Within the portfolio, origination platforms and strategic retirement service investments returned 12% and 4%, respectively, while fund investments returned 8%, aided by strong performance in real assets and higher cash flows from a few structured deals in our yield funds.

There are several qualities of Athene's alternative portfolio that drive resilient performance amid more challenged equity markets, including high current cash flow for our origination platforms, structuring of underlying assets to allow for faster paydown and amortization, and timely redeployment of capital. These structural qualities create downside protection when public markets are volatile, which is proving increasingly valuable in today's market backdrop.

Moving to our fundraising results. Third quarter inflows of $34 billion were strong and diversified across our platform. Asset Management inflows totaled $21 billion and included $17 billion from third-party fundraising, including Fund X and our newly launched S3 platform.

Notably, we began third-party capital fundraising for our nontraded REIT, Apollo Realty Income Solutions, or ARIS, in late September. As we look to close out the year, we expect another quarter of healthy fundraising, including additional Fund X capital as well as the successful equity capital raise for Athora.

So far, we've helped Athora raised over EUR 2 billion of new common equity capital this year, with high visibility to bringing the total to over EUR 2.5 billion in the coming weeks. We believe Athora is uniquely positioned to capitalize on a vast near-term market opportunity in Europe, and this new capital will allow them to execute on their strong pipeline of both inorganic and organic growth and to continue growing at this rapid pace.

In regards to the ongoing Fund X capital raise, our conversations and diligence efforts with limited partners remain very constructive as our differentiated investment philosophy and strong long-term track record are setting us apart from other funds in the market. Through the end of October, we've received commitments of approximately $14.5 billion.

Due to the impacts of the denominator effect in the sheer number of GPs in the market this year, we've agreed to keep the fund open until the first half of '23 to accommodate our investors' annual allocation budgets. We remain confident in reaching our $25 billion target fund size and importantly, all capital closed in the remainder of '22 or the first part of '23 will accrue fees back to the fund's fee commencement date, which we activated on October 1.

Turning to our retirement service inflows. Athene had a stellar quarter of record inorganic growth, as the value proposition of principal protected yield-focused products are proving to be increasingly attractive in today's market. Total inflows of $13 billion in the third quarter included a record $6 billion from the retail annuity channel as fixed rate products with attractive rates were in high demand and continued distribution expansion within large financial institutions helped as well.

Flow reinsurance also benefited from these trends as well as growing traction from our expanding partnerships in Asia Pacific, with its second best inflow quarter ever.

Importantly, the duration and stickiness of Athene's funding is highly predictable, and we have not seen any material change in customer behavior so far this year.

Before turning it over to Martin, I'd like to pick up on a discussion that I outlined at our Investor Day approximately a year ago. We see ample white space opportunities tangential to our existing businesses that can drive accelerated growth above our base case targets. There are a few very large and growing sectors, which typically trade at higher multiples where we have not been historically active such as fintech, life science and software.

Over the past 18 months, we've selectively cultivated strategically and economically aligned partnerships with best-in-class managers in each of these areas to expand the breadth of our platform and expertise. Our investment in Motive, a specialist fintech private equity firm, was our first partnership in the growth space.

This relationship has fostered several tangible benefits already, such as providing proprietary investment origination, helping in transaction due diligence within specialized sectors, building out retail distribution technology, working on product innovation with Apollo and Athene and driving efficiency enhancements across Apollo's operating structure.

More recently, we announced strategic and financial relationships with Sofinnova, a leading European life science venture capital firm, earlier this year as well as Haveli, a premier enterprise software and gaming private equity firm. We expect these more recent investments to be just as successful as what we've accomplished with Motive in just over a year. So with that, let me stop there and hand it over to Martin.

Martin Kelly

Great. Thank you, Scott, and good morning, everyone. So echoing Marc and Scott's sentiment this morning, this is the type of environment where Apollo really shines. Our key business drivers, including capital deployment, investment performance and fundraising, remain strong. And our financial results reflect continued momentum across our primary earnings streams.

The stability, quality and recurring nature of our earnings power provides comfort in these volatile markets. Management fees accounted for more than 80% of fee-related revenue, both in the third quarter and year-to-date periods. And we experienced only an estimated 1% annualized drag on our management fees quarter-over-quarter from market value declines.

Importantly, fee and spread-related earnings accounted for approximately 95% of total pretax earnings in the third quarter. As Marc said, we're on track to meet our 5-year targets that we laid out at Investor Day last year, which includes more than doubling both FRE and total earnings.

Starting with our AUM results, third quarter AUM reached $523 billion, increasing 2% quarter-over-quarter and 9% year-over-year. Inflows totaled $34 billion in the third quarter as we raised significant amounts of capital from both our asset management and retirement services clients.

Total outflows of $10 billion in the quarter included $6 billion from normal course Athene runoff, which increased from the prior quarter due to several expected funding agreement maturities as well as the first of its kind partial repurchase of existing notes in an effort to tighten our trading spreads.

Realizations of $10 billion, included $6 billion related to the reallocation of a limited partner's existing mandate to other strategies. In a similar dynamic to last quarter, most of the third quarter negative market activity was driven by unfavorable FX translation from Athora's portfolio due to a depreciation of the euro.

Moving to FRE. We reported third quarter fee-related earnings of $365 million as previously referenced or $0.61 per share, which increased 14% year-over-year and reflected continuing momentum in our results after increases of 3% and 7% in the first and second quarters, respectively.

Amid turbulent markets, fee revenue growth exceeding 20% year-over-year was very strong and included 16% growth in management fees.

On a sequential basis, yield management fees benefited from a full quarter of Griffin fees and the expiration of a 6-month fee waiver for the non-traded credit BDC we manage, Apollo Debt Solutions. ADS contributed an incremental $5.5 million to each of management fees and fee-related performance fees in the third quarter.

And as Scott noted, we turned on management fees for Fund X on October 1, at which point the fee basis for Fund IX stepped down from committed to remaining invested capital at a slightly lower fee rate. The combination of these two events will be modestly accretive to our fourth quarter equity management fees and we will benefit from higher run rate and catch-up fees with successive closes.

In terms of expenses, comp and non-comp expenses increased on a sequential basis as expected, as the impact of growth in our headcount continues to run through our cost base. Overall, we have good visibility into fourth quarter results and continue to feel confident in meeting our $2.35 per share FRE target for this year.

As we look to 2023, we still expect fee revenue growth of more than 20%, driven by revenue accretion from new strategic growth initiatives, robust organic inflows from our retirement services clients, fees from additional capital for Fund X and continued progress in our capital solutions build out.

With our period of accelerated investment spend to support our fast-growing platform behind us, we expect to generate positive operating leverage next year as we move toward our long-term FRE margin target of 60% plus by 2026. With a very strong revenue growth outlook and moderating expense growth, we are targeting FRE growth of around 25% in 2023, above our multiyear compound annual growth target of 18%.

Moving to our Retirement Services segment. We generated SRE of $578 million or $0.96 per share in the third quarter, which represents a net spread of 120 basis points as a percentage of average net investment assets. Normalizing our alternative returns to 11% and excluding certain notable items, SRE, as Marc noted, was $598 million in the third quarter, translating to a normalized net spread of 124 basis points.

On a sequential quarterly basis, our normalized net spread increased 9 basis points, driven by 11 basis points of net accretion, but higher floating rate income and higher on-the-margin purchases due to rising interest rates, partially offset by 2 basis points of higher operating expenses. The quarter-over-quarter increase in our OpEx reflects higher costs associated with building out our platform capacity, and we view this as a reasonable run rate in the near term.

We've been a beneficiary of this rising rate environment with higher short-term interest rates generating approximately $100 million of incremental SRE from our net floating rate income in the first 9 months versus the comparable period of 2021, with $60 million of this increase or $0.10 a share in the third quarter. We expect this amount to rise further, due to the timing of rate basis resets.

This dynamic as well as attractive deployment opportunities should continue benefiting the underlying profitability of our Retirement Services segment, translating to an expected normalized net spread of approximately 135 basis points in the fourth quarter.

And just to underscore the strength of Athene's business, a year ago, we laid out an indication of $3.35 per share of spread-related earnings this year. We expect to report closer to $4 per share, with 3 key benefits: higher rates on the floating rate portfolio, organic growth, exceeding our plans and a favorable investing environment.

Looking ahead to 2023, we expect this favorable interest rate uplift, coupled with robust organic inflow outlook, to drive above average normalized SRE growth next year relative to our 11% multiyear compound annual growth expectation.

Turning to Principal Investing. We reported PII of $50 million or $0.08 per share in the third quarter. Realized performance fees of $93 million were light, as expected, as we're being patient in monetizing investments to help maximize return potential for the benefit of our fund investors.

Lastly, our business generates a substantial amount of free cash flow, and we expect to deploy $15 billion of capital through 2026 in strategic growth investments, funding the base dividend and both growing the base dividend and opportunistically repurchasing shares.

In the third quarter, we spent approximately $200 million of capital on holdco investments to drive future FRE growth as well as approximately $50 million on share repurchases. As a reminder, we spent $200 million on buybacks in Q2, and we would have engaged in additional share activity in Q3 if it weren't for restrictions during the quarter.

Looking ahead, we expect to be more active in buying back our stock, particularly in times when, in our opinion, our stock is clearly undervalued. We remain comfortable with our strong liquidity position, including a net balance sheet value at the holding company of $2.1 billion or $3.50 per share, with cash and equivalents of more than $2 billion.

In closing, I'd like to reiterate a central theme of our remarks this morning. We're very well positioned to capitalize on a growing pipeline of opportunities in this market backdrop and generate excess return for our clients.

A year removed from our milestone Investor Day, we're even more confident in our ability to achieve our long-term financial targets and are diligently executing against our attractive growth plan, aimed at benefiting all our stakeholders. With that, we thank you for joining the call, and we'll open up for questions.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Patrick Davitt of Autonomous.

Patrick Davitt

I have a follow-up question on the Wealth Management business. I appreciate all the color, Marc, you gave us there. Could you give us a little more specifics on how the flows looked in all those major products in 3Q versus 2Q? And then more broadly, are you still confident in the ability to launch 1 or 2 products a quarter, ramp that business through much more volatile markets?

Scott Kleinman

Yes, this is Scott. So yes, flows have actually been building quite nicely. As we had told you, we expected about $6 billion of inflows this year, the first year of our global wealth activities. And it's been building sort of steadily quarter-on-quarter.

And -- so we feel quite good about that number, in all likelihood exceeding that number. That has been coming in through ADS, as Marc talked about. This quarter, we launched AAA. We just launched ARIS, our real estate product. And then, of course, some of the drawdown funds that are working through this global wealth system as well, namely Fund X, has been moving forward.

So continue to go quite well in that area. We do have some exciting launches early next year. We've talked to you about our ensuring that products that we'll be launching next year as well as a couple of others that will be coming more midyear.

So yes, feeling very good about where we're going. And really, our first year in earnest in the global wealth channel has been a real success.

Operator

Our next question comes from Michael Cyprys of Morgan Stanley.

Michael Cyprys

I wanted to circle back to some of the comments Marc you had made, and Scott as well. Marc, you had referenced the U.K. market hiccup as maybe being the first of many. I was hoping you might be able to expand on that what you see potentially coming where the next pickup might arise, what might cause that how? Apollo might be able to capitalize on that opportunity?

And then, Scott, you mentioned about distressed investing, that you're preparing for that. Can you maybe just expand upon your outlook and how you see that playing out this cycle?

Marc Rowan

Why don't I start on the macro side, and then I'll let Scott add some color. So if you go back to Dodd-Frank and the changes that happened in our system, beginning in 2008, one of the changes that happened was an increase in the, I'll say, penalty of the cost of providing trading capital. By our estimate, we have roughly the same amount of market-making capital in the system today as we had in 2008, with markets significantly larger.

One of the things we are seeing across every market is a decrease in liquidity, and this is not just a structured product phenomenon, this is a treasury market. There was an article yesterday talking about that. And as I like to say to our clients, we now are in a market where there's only liquidity on the way up. There is not liquidity on the way down.

The public markets are less liquid. The private markets are more liquid. And so we're seeing a gradual trend toward increased private liquidity, decreased public liquidity. And as a result, when you have short-term capital calls or short-term phenomenon, you end up with all manner of market-based kind of illiquidity, particularly when everyone is looking for the same door at the same time.

Scott Kleinman

Yes. And just to add on what Marc said, while we can't necessarily predict exactly where those movements will come, 14 years of 0% interest rates has led markets to pursue increasingly levered strategies to try to find yield and return. And now that we're in a rising rate environment and those levered trades have to unwind, that they all happen at once, right?

The LDI transaction that I referenced didn't -- there was nothing inherently wrong with the CLO tranches we were buying, it's just that happened to be the most liquid asset that those entities had to liquidate in order to cover their leverage and margin issues. And so those are the types of things -- so being ready, having the breadth and scale of platform to take advantage of that when you see those cracks happening, that's the opportunity.

Marc Rowan

You have to, again, appreciate. We've lived in 10 years of benign environment, with increasing liquidity and low rates. And this mismatch of daily liquid products, with non-daily liquid assets, is across our financial system.

We saw it in March of 2020, in the beginning of the pandemic, where it happened in open enter mutual funds and ETFs. We've now seen it in LDI. And we will continue to see that because I step back again to the macro. Our system is designed today such that things are only liquid on the way up there, not liquid on the way down.

And if you have any sort of event where investors all run for the same door, at the same time, there is no longer the dealer capital in the system to serve as a buffer to allow for usual business as usual price expectations. To be willing, to be able to participate in that market, you have to have not done something over the past 10 years. You have to have not fully invested your balance sheet, fully deployed your capital, try to maximize your earnings in a period that was very easy to try and do that.

And so what you find is many investors, many institutions today, are offsite. They are essentially fully deployed. I think about the insurance industry and the publicly traded insurers over the past decade, U.S. and Europe have raised closer to 0 than $1 billion of capital and have paid out roughly 90% of their current market cap as dividends.

That means people are not saying overexposed, but they're not in a position where they are net buyers and large size on market dislocation. We try and run our European, our U.S. business and our fund businesses, such that in the -- once a decade, once or twice a decade opportunity, we can be really large buyers of mispriced risk. And to do that, you have to be patient every day. And I come back to you with the hardest thing to do running a competitive investment firm is not to chase the hot dot, just to sit and do nothing and wait.

Scott Kleinman

And Mike, just to quickly answer your distressed question. So as you look at the credit markets right now, if you were to look at the indexes per se, we're certainly not in distressed territory yet. Although, name by name, you are starting to find some interesting situations moving in that direction.

Fund X has started to accumulate positions in a few names so far, but our watch list is -- stretches into the hundreds. The key -- as I've said in the past, the key to successful distressed and distressed investing is to be ready, right? When the markets move, they move, and you can't start analyzing your names, your credits at that moment.

You have to have fully built out investment thesis around not only which names, but where in the capital structure or what prices you're interested in investing. And our teams are, at this point, fully sort of built up and prepared awaiting for those moments to happen, which, I mean, nobody has a crystal ball, but we'll probably roll into early next year when you start to see that happen.

Operator

Our next question comes from Finian O'Shea of Wells Fargo.

Finian O'Shea

A question on the Credit Suisse SPG business. Can you talk about the potential or expected impact to your direct origination volumes?

Marc Rowan

It's Marc. I think it's too early to say what direct origination volumes would be. But I will come back to what I see as the macro opportunity, and this is how I frame the opportunity.

Dodd-Frank, sufficient in the accompanying regulatory reform in Europe, shrunk the size of the banking system, made more of the banking systems products, investment products. The way I see U.S. consumers and companies banking today is through the structured products market, through people like us and like Credit Suisse.

I believe that the structured product market can be the size of the corporate credit market. And for us, this is a slice of it. This is the top of the capital structure, generally AAA, AA, and it has relationships with 200 different entities. The transaction will initially -- is a vision to initially be funded by ourselves and by PIMCO.

And it is our job, not just to take something that is already of size and scale, but to grow it from there. So I think it's early to predict how much origination will come out of this. But suffice it to say, it's going to be up to us to build a franchise around this and to retain the clients and the people necessary to go do that. But we are very optimistic, and we would not have leaned in with all of the resources that we did if we didn't think this was a needle mover with respect to our origination capability.

Operator

Our next question comes from Rufus Hone of BMO.

Rufus Hone

I was hoping you could spend a minute on AAA specifically. And you mentioned last quarter that you think this has the potential to be the largest single product or fund for Apollo. So how are your conversations progressing with institutions and what do you still need to do in order to get this into the retail channel? And when could we start to see flows from retail come in?

Marc Rowan

So it's Marc. I'll come back to you. So we launched with approximately $10 billion from Athene, $1.5 billion from Sumi Trust and $3.5 billion of other institutional commitments.

If I look at things that have come out of global wealth and retail, I don't have the exact number in front of me, but it's something $200 million, $300 million. I would expect us to cross the $500 million, $600 million of new money beyond that by year-end. But we really will see -- we're now accepted for wealth distribution channels on a number of platforms, really focused on the first quarter, and I think you will see growth in '23.

It is now up to us to take a product that we think makes sense and explain it to the market and prove out success. So it's now the hard work is on us. But I step back, we are offering investors side-by-side alignment with us for de minimis or no incremental fee on a fully diversified, no J-curve portfolio, where they have liquidity, 5% a quarter, and we do not. The initial conversations have been very encouraging, but it is now up to us to execute.

Operator

Our next question comes from Alexander Blostein of Goldman Sachs.

Alexander Blostein

I wanted to circle back on the capital return philosophy. The platform has gotten much bigger you guys are exceeding your near-term earnings expectations and the excess capital continues to build.

So I guess, near term, I think, Martin, you mentioned that you guys were blacked out in the quarter, and that's one of the reasons why you couldn't do much for buybacks. Is that to Credit Suisse or something else? And I guess more importantly, as you look out into

2023 with kind of the dynamics that I mentioned, what are your expectations for total payout between dividends and buybacks?

Martin Kelly

So we were restricted. I won't go into the reasons we were restricted, but we were not able to buy back more than we did, which is a de minimis amount in the quarter.

If you look at what we've done this year, we've actually spent about $1.8 billion between the dividend and strategic investments, and that included about $200 million of buyback in Q2. That's sort of a -- and we earn our way into the $15 billion of investment capacity over time. So you need to own it to spend it.

As we look at our capital uses around the system, Athene is growing more rapidly than we thought. And $1 of growth in Athene is highly accretive in terms of export through FRE and SRE. And then we also believe that $1 of capital spent to buy back stock is also very accretive given our earnings expectations.

So I think, Alex, you'll see us do both. It's a balance. Part of the balance is the role that beta plays as the equity score than, which is -- which provides important leverage to Onex without capital. So we'll return in the early part of next year with more around what we expect the capital return plans to be.

But I think you should expect us to see us do both lean into growing Athene because it's highly accretive and buy back stock. And then at the same time, we'll continue to look at strategic growth alternatives around the system, including some of what we've done this year.

Operator

Our next question comes from Brian Bedell of Deutsche Bank.

Brian Bedell

Similar to AAA, similar question on Apollo Realty Engine Solutions, the new nontraded REIT product. Can you talk about how you see that being differentiated in a market where more of these products are beginning to come out? And then maybe just also a comment on the retail sort of risk off behavior that we're seeing in the market? How are these conversations resonating?

And do you think you need a risk on behavior to accelerate sales in the retail channel? Or do you think your story will really resonate as a differentiator and therefore, generate organic growth based on that?

Scott Kleinman

Yes, this is Scott. I'll answer both of those. On the real estate product, we believe we do. Like every investment product we have, Apollo takes a slightly different approach than the rest of the market. A more value-oriented purchase price matters approach really seems to be early resonating with some of the channel partners that we've been talking to as we get this product launched.

So I actually do think we have a differentiated product that should start to gain some real traction. As far as the market itself, the global wealth and retail market, look, fortunately for us, we are starting our journey this year in many of these products. So we have only one direction to go, which is up.

And so while we do know that others have reported, I think, some suppressed or depressed volume levels, that's not what we're seeing right now. We are moving in kind of an up and to the right type of trajectory.

I think it also helps the fact that we are building these portfolios today in a '22 rate environment and asset value environment where we are not loaded with, what I'll call, top of the market, huge asset purchase is top of the market in '20 and '21. And that I think investors see as a real opportunity to put dollars to work and then start putting dollars to work in a really attractive way.

So all in all, like I said, we feel really good about where we're headed, albeit starting from a much lower base than others. Feel really good about where our global wealth business is headed.

Operator

Our next question comes from Benjamin Budish of Barclays.

Benjamin Budish

I wanted to ask about the disclosure on the annualized outflow rates in the insurance business. It looks like the policyholder driven withdrawals hasn't -- the rate in the quarter, it wasn't really changed over the last 12 months. I'm just curious how that kind of compares over a longer time horizon?

And then you mentioned some kind of seasonality with the maturity driven contractual outflows. I'm just curious if the normalized rate should look more like the 2.5 or so we saw over the last year? Or you could kind of give any color on that, that would be helpful.

Martin Kelly

Yes, Ben, you're exactly right on the first piece. So I think of this as sort of contractual or within our control is sort of one category. That will be more volatile. And then there's policyholder-driven, which is sort of behavioral.

And the policyholder-driven, you should always expect that there's some amount of older withdrawals and outflows. And we had a 7% annualized rate in the quarter. We had a 7% annualized rate for the last 12 months. It's in line with our plans.

And policyholders access their policies to get cash for a variety of reasons, that's just part of the business. So we are not seeing any real change in that relative to history or our expectations, and that's the higher focus point. The contractual is a combination of both some particular funding agreements maturing. And we were in the market, as I mentioned, buying back funding agreements during the quarter, and that was sort of a decision that we made.

So that number -- funding agreements tend to have a shorter duration to them. And so you do need to be in the market issuing funding agreements, and we'll access that more fully when the market is there. But we're much less concerned about that. That's a market where we're a leader in and we've got good names and spreads. We've provided that extra disclosure on behavioral surrenders to provide more clarity and sort of comfort around that piece of the outpost.

Operator^ Our next question comes from Gerald O'Hara of Jefferies.

Gerald O'Hara

Perhaps a tough one, but clearly a strong quarter from a transaction fee environment or a transaction fee, I guess, reported number. Is there anything you can sort of give us a sense of where the baseline for this might be? Or perhaps just kind of what to look for in terms of kind of puts and takes from a backdrop in the environment to kind of help us build this on a go-forward basis?

Scott Kleinman

Yes. Look, so as I alluded to in my prepared comments, the transaction fees are inherently -- there is an inherent up and down in that business line. But I would think of it more as an upwardly sloping sign curve, right? In any given quarter, I can't tell you does the transaction close on this side of the quarter or the far side of the quarter.

But I do know, given the scale and breadth of what we've been building that we are step functioning the volume and capacity -- the capacity to earn and generate fees on an increasing basis. And so we do see that trajectory moving. As you know, we put out a 5-year target of $500 million of revenues. We're -- as Marc alluded to, we'll be right around $400 million for this year.

So we are moving that upwardly -- we're moving up that slope, I'd say, even quicker than we had originally anticipated and expect that to continue to chug along. So like I said, it's a -- you can't predict any one transaction in any one quarter, but as your breadth and volume grows, you do see that trend of upwardly sloping.

Operator

And that concludes the Q&A portion of today's call. I will now return the floor to Noah Gunn for any additional or closing remarks.

Noah Gunn

Great. Thanks, everyone, for joining us this morning and for your continued interest in Apollo. If you have any questions on anything we discuss on today's call, please feel free to reach out to us, and we look forward to connecting with you.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.