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# Apollo Global Management, Inc. (APO)

Q2 2022 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

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

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

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

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### Noah Gunn

*Managing Director & Global Head-Investor Relations, Apollo Global Management, Inc.*

Thanks, operator and welcome again to our call this morning. Earlier today, we published our earnings release and financial supplement on the stockholders portion of our website. Additionally, for those who are not able to tune-in live, we have the presentation and video replay of the Retirement Services Business Update we hosted in June available on our website.

For the second quarter, we reported record quarterly fee related earnings of \$341 million or \$0.57 per share, and spread related earnings of \$442 million or \$0.74 per share which together totaled \$783 million or \$1.30 per share. We also reported normalized SRE of \$535 million or \$0.89 per share which was also a record and increased 10% quarter-over-quarter. In total, we reported adjusted net income of \$566 million, or \$0.94 per share.

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

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

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### Marc Jeffrey Rowan

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

Thank you, Noah, and good morning. This is among my favorite weeks. It's the week when our next class of associates join Apollo and we do our best to integrate them into our firm and our culture. And it's also a good chance for us just to step back and really synthesize for them the things that make our firm unique and there are three that I always focused on.

The first, our business, in fact our industry is built on the proposition of excess return per unit of risk. We're not in the AUM business. We're not in the fee business. We're in the business of providing clients excess return per unit of risk. So as long as we do that, the business will take care of itself as it has this quarter and throughout this year.

The second and it's a very different proposition than almost anyone else in our industry, we are an aligned investor. Our Retirement Services balance sheets through Athene and Athora are among the largest investors in each of our products, side-by-side with our third-party institutional and retail clients. Alignment is something unique in our industry and is something of great comfort to our clients, particularly during periods of market volatility.

And finally and I know it will bring a smile to people in this room and elsewhere, we do one thing really well, Purchase Price Matters. Purchase Price Matters is a philosophy that starts with the protection of principal and is embedded in absolutely everything that we do. We approach our credit business, Purchase Price Matters. We want to be top of the capital structure senior secured. We approach our equity business in that we want to buy growth but we don't want to pay for it. So, we're prepared to work hard. The reality is Purchase Price Matters as a strategy has allowed us to play offense in every corner of our business this quarter and it could not have been a better quarter in terms of execution and strategic progress. I'll do a quick tour of what I think were the highlights of the quarter, and then Jim and Martin will certainly add to it.

As Noah stated, record FRE for the quarter. You should expect FRE to accelerate in the back-half of the year and into 2023 consistent with the estimates we provided you in our Investor Day back in October. Record SRE, particularly on a normalized basis this quarter, \$36 billion of inflows. The calendar was a little bit unkind to us and did not include a first close on Fund X, which would have added \$13 billion to this total. But make no mistake, that will show up in next year.

This morning, we also announced the multibillion-dollar launch of S3, our GP and LP solutions business. We launched this quarter our first next-generation Global Wealth product, Apollo Aligned Alternatives, which I will spend some time on throughout this call, record fees from capital solutions. We have a very clean book. We have zero hung deals, zero losses, and this is an amazing time to actually put on risk when everyone is retreating from risk.

Let me turn to Athene for a moment. Athene averaged \$900 million-plus per week of inflows across all channels. Volume is interesting but they're coming at near-record spreads. Business in the second quarter produced 110 basis points of pre-tax net spread. We're able to do both the volume and the spread while actively upgrading the portfolio due to market volatility. The quarter was also incredibly important milestone. We added a Moody's rating of A1. Now, puts that alongside our A+ from S&P and our A+ from Fitch.

Athora also had an absolutely amazing quarter. We announced a sizable transaction in Germany which will close at some point next year, we believe. We also closed a deal in Italy this week which will add about \$5 billion of incremental fee paying AUM. We added a new CEO, Mike Wells. Jim will touch on that. And you should expect us to do a sizable capital raise in the second-half of this year, further bolstering Athora's firepower and growth. There is no entity in the European market that will have raised anywhere near what Athora has put together in terms of its capital base to become the premier consolidator in the European market.

In terms of investment performance, PE outperformed the S&P 500 by 1,100 basis points in Q2 and more than 2,200 basis points year-to-date. The Athene alts portfolio returned, which represents a subset of what we do, a more downside protected was plus 6 in Q2 versus minus 66 annualized for the S&P. A differentiated and downside protected portfolio is exactly what we want on a regulated balance sheet. In our Yield business, directed origination strategies were very strong contributors to the quarter. And as you recall, the vast majority of what we do in Yield is top of the capital structure senior secured. In a market like this, we do some of our best work and \$40 billion of gross capital was deployed across our business in Q2.

Turning now to the three bets. Capital Solutions, I've already touched on and I know Jim will go into detail. Suffice it to say, coming into the market with a very clean book, without any exposure gives us a lot of firepower at a point in time when everyone's pulling back. In origination, this is just a good time to originate assets. We originated \$21 billion this quarter, \$100 billion year-to-date and we are a reliable source of financing when public markets and in fact private markets often do not cooperate. To give you a sense of how this is impacting some of our platforms, take our MidCap, mid-market senior secured lending platform. For this half, they're 16% return on equity compared to low-teens historically. This reflects a lot of firepower, a lot of capital, the absence of competition. We closed 17 new deals across 12 new relationships in June alone. First-half origination volume, \$9 billion up 25% year-over-year.

If I look at Wheels Donlen, which is our fleet leasing platform, our initial investment in Wheels Donlen was \$2 billion of AUM in the first quarter of 2021, pro forma for the announced acquisition of lease plan, and other growth during the year, we should close the year out at more than \$7 billion of AUM across this platform. Finally, our transaction to purchase Aqua, another platform focused on home improvement particularly solar also closed last week. Business is performing well.

Let me move now to Global Wealth. We are a scaled player in the global wealth business. Our brand is resonating across the Global Wealth platform. If I step back and think about where the industry is, we are in very, very early days. If you think about what we as an industry have offered the global high-net worth community thus far, we've offered them REITs, BDCs, and private funds; essentially the same product set we have offered for more than 20 years. Not much new has been created for this market. The growth in this market despite in older product set, has come as a result of institutional level of fees being offered to high-net worth for the first time, and technology and market understanding which have made the products more accessible, more approachable, and more easily digestible by global wealth systems. We clearly will offer REITs, BDCs, and private funds and have successfully been doing that across our platform and I know Jim will touch on some of that.

But our desire here is to be positioned in this market as a thought leader and as an innovator, and to create products specifically for this channel that really seek to eliminate friction points that historically have kept this channel from really embracing alternatives. This quarter, right at the end, we announced the launch of AAA, Apollo Aligned Alternatives. This is designed with the individual investor in mind. What we seek to do in AAA is to produce equity-like returns with fixed income-like volatility. AAA represents 180 different positions, which have been put together over the past 13 years which have a very fine track record and represent the entirety with some limited exceptions of Athene's equity account. Essentially, an individual investor gets to invest side-by-side with Apollo and Athene across its balance sheet in a way that is fully diversified, no J-curve, no two levels of fees, complete alignment, no capital calls. In a nuanced way, this is private and it is equity but it is not private equity. This is not a replication of leveraged buyout or of private funds. This is fundamentally a replacement for S&P core equity holdings within an investor's allocation.

Something to touch on that I said last time: We view this market alternatives in a very, very broad way. We view alternatives as nothing other than an alternative to publicly traded stocks and bonds. Historically, the alternatives universe has been looked at in the context of private equity or hedge funds, or now in the context of REITs and BDCs. I believe when we step back and really contemplate what we as an industry and we as a firm are capable of here, the definition and therefore the addressable market is just much, much larger.

We launched this product with \$15 billion of invested or committed capital, \$10 billion off the Athene balance sheet, \$1.5 billion from SuMi TRUST, which we announced at the end of July, and a sizable commitment from an Asian-based institutional investor, and a high-net worth money manager. Early conversations with Global Wealth

are very encouraging. I believe that this has the potential to be the largest fund across the Apollo platform by this time next year. But the hard work now begins for us to educate the market and really show the market how this product can be used as a core equity replacement product forming the bedrock of a high-net worth retail investors' equity portfolio in place of their S&P 500 exposure. Continuing on in Global Wealth, the acquisition of Griffin in all its various iterations is now completely closed. The integration is complete. Momentum is very positive. Solid fundraising year-to-date for our real estate interval fund, which now stands at about \$7 billion of AUM, we could not be more pleased with how seamless the Griffin acquisition has gone.

Let me also touch on ADS, our private market BDC. Again, off to an amazing start, particularly considering the macro backdrop, almost \$1 billion of inflows in Q2 against less than \$2 million of redemptions. More than half the portfolio is now invested in directly originated loans as of the quarter-end and the opportunity to put capital to work where the market has taken a risk-off point of view is offering us really interesting opportunities at very nice spreads at very low LTVs.

At the end of the day, this does as I've often said, all come down to people. Nearly 100 new people joined Apollo in the second quarter. Some key hires; a head of family office, a head of insurance, third-party insurance, marketing, head of digital assets, all of whom I believe will be well-known to you and other constituents as the months go by. These are truly outstanding people who see in Apollo what all of us see. We are at a size and scale where we are capable of doing anything but we are small enough to still behave like entrepreneurs and to run our business around the principles of excess return per unit of risks, of aligned investing and of Purchase Price Matters. I would expect on a go-forward basis, the pace of hiring will slow down. We are scaled. That does not mean we will not hire. We will still grow. But the vast scaling that we needed to do to accommodate our ambitious plans which we set out at Investor Day has largely been completed.

Culture for us is very important. We are in-office culture. We are back. Those who have visited us in person often remark they're shocked at just how active in-person our office is. As I've said to some of our competitors, there's nothing like feeding people three meals a day to get them in the office. We have, for the past decade and longer, followed Purchase Price Matters. We did not chase the hot dot. We never forgot that the business of investing was not just about reward. It was also about risk. I believe that is being perceived by our institutional clients and by our retail clients and we are being trusted as good and responsible stewards of capital.

We completed an offsite this week, Jim, Scott, Martin, myself and others. It was about as optimistic and confident as I could convey. We fully expect that the business plan that we laid out for all of you in October of past year is well within our reach of doubling our AUM, doubling earnings and generating \$15 billion of cash flow over the five-year period per our Investor Day comments.

With that, let me turn the call over to Jim.

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## James C. Zelter

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

Thanks, Marc. Our second quarter results showcase the virtuous flywheel effect we're witnessing across our business as it relates to capital formation, debt origination and deployment. We generated very strong quarterly inflows of \$36 billion, including \$24 billion from Asset Management and \$12 billion from Retirement Services. And the quarterly total would have been nearly \$50 billion if including the recent Fund X commitments that Marc cited. Our debt origination engine continued to source attractive investments during a very volatile and uncertain time in the public markets, generating \$21 billion of volume. And across the platform gross deployment totaled \$40 billion in the second quarter and \$175 billion over the last 12 months, which demonstrates the scale and breadth of our investing capabilities.

There's a lot of great things to talk about across the firm right now so my remarks this quarter will take you on a highlighted tour around the franchise. But first I'll start with an important reminder: Many of you know that we have built our business to be resilient and excel in times of market dislocation. We manage long-dated and perpetual capital for our clients. We have a proven ability to find and create value. And we can diligently wait for opportune windows to monetize investments. As Marc highlighted, our approach is grounded in Purchase Price Matters, i.e., price discipline and the downside protection mentality that permeates everything we do. In moments like this where levels of uncertainty are high and market volatility is elevated, we often will put significant amounts of capital to work as we did in the second quarter. We see a growing pipeline of attractive investing opportunities to deploy the \$50 billion of dry powder we have across our Yield, Hybrid and Equity investing strategies.

Starting with Yield, our cautious positioning at the top of the capital structure primarily in senior secured positions has driven broad outperformance across our funds this year. Our direct origination strategies appreciated by more than 3% in the second quarter while corporate credit performance has held up well versus comparable benchmarks. With traditional sources of financing stepping back amid heightened volatility, we're seeing tremendous deal flow in our pipeline of near-term demand is quite robust. As spreads have widened, we've moved up the risk spectrum to generate the same attractive returns. For example, spreads on new issue, large cap, private direct lending investments are now exceeding 650 basis points over SOFR. Year-to-date through July, we've committed to 11 transactions of at least \$1 billion in size, demonstrating the scale and certainty we can provide our clients in turbulent periods.

We've also issued nine CLOs and opportunistically purchased over \$1 billion of investment-grade CLO tranches this year-to-date for both our Retirement Services clients and other accounts with yields approaching 7% to 10% for AA to BBB risk when considering original issue discounts that are infrequently available.

We're also seeing tremendous opportunity for our Hybrid funds as strategies that provide equity-like upside with structured downside protection are becoming more and more attractive. Our Hybrid value franchise in particular proved quite resilient with our first vintage appreciating 1% in the second quarter and we held a final close for Accord V, raising approximately \$2 billion of capital in just a few short months.

The deployment pipeline has grown quickly as companies are seeking bespoke solutions in this environment and we expect to have a very active second-half of the year. Interestingly, the collapse of growth equity markets has created a unique financing opportunity and challenge for once highly valued companies. We are aiming to capitalize on this dislocation by providing preferred equity and creative debt structurings. This is how Purchase Price Matters mentality approaches the growth equity market.

Turning to Equity, our pipeline of investment opportunities is strong and we expect to deploy a meaningful amount of capital from our flagship private equity funds in the coming months. We have approximately \$1 billion of remaining capital in Fund IX to deploy before the fund is fully committed. In terms of successor as of today, we have received \$13 billion of commitments for Fund X, representing more than half our total target of \$25 billion. We are currently seeing strong support from both existing and new institutional investors especially from outside the United States and expect to raise a record amount of capital from the Global Wealth channel. Despite the frequently discussed congestion dynamics in the market, we believe we are offering a differentiated product and we remain confident in meeting our target. Financially, we expect to benefit from a step-up in FRE when we turn on Fund X which we currently expect will be sometime in the fourth quarter and all capital raise subsequently will earn catch-up management fees from the commencement date.

Moving to Retirement Services business, Athene is built to withstand market disruptions and prosper through them. Like our Asset Management business, we are not a current period profit maximizer and instead manage Athene to possess significant capital flexibility and ample liquidity. This is exemplified by a \$3.2 billion of excess equity liquidity and nearly \$8 billion of cash within the portfolio at the end of the quarter. This posture allows us to be positioned offensively and defensively at the same time and we view the current backdrop as a terrific environment for the business to grow. Athene provides customers value-generating savings product with principal protection features that have the durability to perform through stress, and we sleep well at night knowing the business is highly stable, predictable and almost entirely supported by investment grade-rated assets.

Within Athene's IG structured security allocation, you'll find the CLO portfolio particularly resilient. For example, we believe BBB-rated tranches issued today can withstand an annualized default of the underlying loan portfolio of approximately 11% for each of the five years without being impaired. For those interested in more information, we provide an in-depth analysis on Athene's investment portfolio, including helpful insights on structured securities as part of our Retirement Services Business Update from June that Noah mentioned. The attractiveness of Athene's product suite in a rising rate environment was also in full display in the second quarter with record quarterly inflows of \$12 billion underwritten to attract attractive returns. Athene's retail annuity channel benefited from higher demand with record quarterly inflows of almost \$4 billion and application submissions nearly doubling year-over-year. Second quarter activity also included a \$4.3 billion pension group annuity transaction with Lockheed Martin; the largest deal of its kind in the industry so far this year. And we see a strong pipeline for that channel heading into the back of the year. Clearly, Athene's earnings power is growing in the current environment and its balance sheet is not exhibiting any signs of stress from undue credit risk or unexpected withdrawals.

There have been a couple of recent updates at Athora, our Retirement Services business in Europe. And in July Athora announced the appointment of Mike Wells as Group Chief Executive Officer subject to regulatory approval. Mike is a well-respected seasoned leader within the industry, most recently serving as the CEO of Prudential plc. Also in July, Athora announced the transaction with AXA Germany and expects to close on an annuities portfolio currently now valued at €19 billion by the end of next year. This transaction add strategic scale to Athora's German business which is Europe's second-largest retirement services market with nearly €1.2 trillion in reserves and an actionable pipeline of sizable transactions. To assist in their continued growth ahead of the deal close, Athene expects to participate as an anchor investor in an equity raise for Athora in the second-half of this year. The AXA transaction and the planned deployment of the proceeds from the upcoming capital raise are expected to drive meaningful AUM growth for Athora over the next couple of years.

Moving to our key strategic growth initiatives, our Origination ecosystem is proving increasingly valuable in a period of rising interest rates and tightened liquidity. Over the last 12 months, our Origination volumes totaled \$100 billion as we laid out in Investor Day and included a higher proportion from proprietary Origination platforms in the second quarter. Within the context of market weakness and dislocation, we're taking measured steps to opportunistically grow the ecosystem in-line with our longer-term goals. For example, we recently announced the acquisition of LeasePlan and subsequent combination with Wheels Donlen to create a unified fleet management platform. This is a prime example of our platform strategy; Acquire expertise, bolt-on tangential capabilities and organically build scale. Pro forma for the LeasePlan integration, we expect fleet platform originations to total approximately \$3 billion annually.

Our Capital Solutions business or ACS had an outstanding quarter with record quarterly transaction fees of \$103 million, showcasing our ability to step in with private capital when other sources of liquidity dry up. The full alignment we share with our Retirement Services balance sheet, augmented by our strategic partner Mubadala, is proving to be meaningful differentiator for financing counterparties since we can



execute more transactions with greater scale and certainty than ever before. Our value-add in this environment is resonating with third-party clients who want to own pieces of what we do side-by-side with us through managed accounts or syndication.

One of our recent signature ACS transaction was a \$2-billion financing for New Fortress Energy to form a liquefied natural gas maritime infrastructure platform. Over the last 24 months, we have grown our partnership with New Fortress from an initial \$800 million loan into a comprehensive financing partnership. The transaction initially started as an equity investment from several pools of capital within our broader, sustainable investing effort. But when third-party financing markets shut, we pivoted internally and provided \$1.5 billion of debt financing via our ACS platform. When most capital market participants would have stepped away, we were able to complete our first-ever fully financed debt and equity transaction in a one-stop solution, all while providing flexible, scaled capital with certainty of execution.

If you heard us talk about before, we are actively working to bring Yield, Hybrid and Retirement Services capabilities to new geographies. We took an important step in the second quarter and announced the launch of our new Asia-Pacific credit strategy with \$1.25 billion in assets including a \$500-million anchor investment from Hostplus, a large, superannuation fund in Australia. This commitment reflects the growing demand in the region for Capital Solutions from non-bank lenders with local expertise and origination capabilities.

Earlier, Marc hit on a couple of newer product creation within our Global Wealth platform but we've also taken an important step within our existing product suite to help in further democratization of finance. Earlier this week, we announced transformative changes to accelerate the transition of our publicly traded BDC, Apollo Investment Corp. into a pure-play, senior secured middle-market BDC via an equity investment for MidCap, our largest origination platform. We view this change as a unique opportunity for individual investors to participate side-by-side with the largest institutional investors in the world. To enable this shift and strategy, we're reducing fees for the BDC to industry-leading levels effective January 1, 2023. The portfolio transition and rebranding are now taking place and we are excited about the future of this vehicle alongside our broader Global Wealth platform.

As Scott spent some time speaking about it last quarter, we're seeing – seeking compelling growth opportunities in areas of whitespace that are tangential to some of our strongest and largest businesses. Early this morning, we announced a cornerstone commitment from a long-time strategic partner, Abu Dhabi Investment Authority, or ADIA, as part of a broad \$4-billion of new commitments to launch a platform dedicated to GP and LP solutions, which we're calling Sponsor and Secondary Solutions, or short S3. Our goal is to provide a comprehensive set of secondary and fund-financed capital solutions including private equity, credit, and real asset secondary investments, net asset value loans, GP lending, staking and much more. We've already been active in this space having committed or deployed more than \$13 billion of capital to transactions of this nature over the last 12 months and we think we're uniquely positioned to grow the business over the long-term.

Now, all the exciting developments I just walked through was just a highlight tour which should indicate that we are busier than ever and see immense opportunity for the Apollo franchise to thrive in this market.

I'll pause there and hand it over to Martin to discuss our financial results.

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## Martin Kelly

*Chief Financial Officer & Co-Chief Operating Officer, Apollo Global Management, Inc.*

Thanks, Jim and good morning, everyone. Echoing Marc and Jim's sentiment, second quarter results highlight the resiliency of our earnings power in a period of heightened market dislocation and volatility. Before diving into the detail of the quarter, I'd like to offer a few contextual points around this theme of earnings resiliency: First, our fee

related earnings continue to be driven primarily by management fees on – as the investment manager for our suite of investment strategies and perpetual capital vehicles. Year-to-date, nearly 85% of our fee related revenue is comprised of management fees while only 2% was comprised of more volatile fee related performance fees. We have to minimize sensitivity to changes in interest rates or spreads which we've previously highlighted. In a quarter where equity markets declined by 16%, Treasury sold off by 12% and spreads widened, we experienced only an approximate 1% drag on our management fees from market-driven declines. And despite investments that we've been making around the platform in preparation for our next leg of multiyear growth, we're doing so in a margin conscious way and maintaining a high level of efficiency with an FRE margin level above the peer average.

Next, our spread related earnings are highly durable and possess all-weather characteristics since they are largely generated by the performance of held-to-maturity, investment-grade fixed income assets exceeding a predictable and persistent cost of funds. A simple financial model with massive strategic benefit. Over the past eight years, SRE has had a 90% correlation with FRE and historical credit losses have been below industry average amounting to single-digit basis points per annum. Furthermore, the amount of Athene capital supporting SRE generation will decline over time due to the increasing usage of third-party sidecar capital via our ADIP given the attractiveness of this earnings profile to sophisticated institutional investors. Given all these factors, it's clear that spread related earnings are both highly resilient and highly attractive.

Turning now to results for the quarter. Total AUM reached a new record of \$515 billion at the end of June, increasing 9% year-over-year, driven by robust inflows from both Asset Management and Retirement Services. Sequentially, AUM increased modestly as strong inflows of \$36 billion were offset by \$16 billion of unrealized mark-to-market depreciation, \$11 billion of which related to Athora as well as \$8 billion of normal course outflows from Athene and Athora as well as \$7 billion of realizations.

Our fee generating AUM, which is less sensitive to changes in market values, increased by \$5 billion on a sequential basis. Importantly, Athene and Athora are spread based businesses with duration-matched assets and liabilities and therefore higher rates or wider spreads do not negatively impact profitability but instead temporarily reduce AUM. Inflows from our Asset Management business totaled \$24 billion in the second quarter and included \$8 billion of financing across several strategies such as Credit Strategies, Accord V, Accord+, total return and several Yield managed accounts as well as some of our newer funds namely AAA and Asia Pacific Credit. We also added \$8 billion of Yield AUM and \$6.5 billion of Yield fee generating AUM from our acquisition of Griffin Capital's US management business which closed in early May. Looking to the second-half of the year, we expect AUM will benefit from approximately \$20 billion of identified inflows before consideration of organic growth from Athene and other Asset Management fundraising. We expect these identified inflows to include initial commitments for Fund X, additional third-party commitments for AAA and a sizable seed investment from ADIA for our S3 platform launch which Jim just mentioned.

Second quarter FRE totaled \$341 million, or \$0.57 per share increasing 7% year-over-year. Fee related revenues increased 14% year-over-year demonstrating solid growth despite market weakness. Management fees totaled \$522 million and included \$16 million of fees from the acquisition of Griffin Capital. As Jim noted, transaction fees reached a new quarterly record of \$103 million in the second quarter. Compensation and non-compensation expenses increased sequentially as the impacts of the Griffin acquisition and a higher firm head count continues to flow through our run rate cost base. Entering the back-half of the year, we have a visible pipeline of fee related revenue growth driven by increasing management fees, including the commencement of Fund X sometime in the fourth quarter, as well as stronger transaction fees expected in the second-half relative to the first-half from our ACS business. We also expect expenses in the second-half of the year to continue to increase as we near the end of our accelerated growth phase. We're highly confident in meeting our \$2.35 per share FRE guidance for

2022 as we initially outlined at our Investor Day and which included lower growth in the first-half of 2022 and higher growth in the second-half. Looking to 2023, we expect fee related revenue growth to exceed 20% due to broad-based momentum across our established businesses as well as traction in newer growth initiatives that both Marc and Jim outlined, coupled with operating leverage improvements as the pace of investment spend and hiring normalizes.

Moving to our Retirement Services segment, we generated SRE of \$442 million, or \$0.74 per share in the second quarter, which represents a net spread of 95 basis points as a percent of average net invested assets. Normalizing our alternative returns to 11% as we did in the first quarter by normalizing down to 11% and excluding certain notable items, SRE was \$535 million in the second quarter equivalent to a normalized net spread of 115 basis points. On a sequential basis, our normalized net spread increased by 7 basis points, primarily from higher net floating rate income. As we've discussed before, this earnings accretion from rising rates demonstrates the countercyclicality in Athene's business model and we expect the benefit of higher rates to continue to ramp through SRE.

Athene's alternatives portfolio generated a 6% annualized return in the second quarter, which was very resilient in light of a 66% annualized decline in the S&P 500 and an 11% annualized return in the first-half of the year in-line with our normalized return assumption. Athene's alternatives portfolio is highly diversified and constructed to generate equity-like returns with significant downside protection. About half of the portfolio is invested in Apollo and other fund investments which generated an 8% annualized return in the second quarter. This strength was primarily from Athene's investments in real estate that benefited from cash flow related property specific updates. Specific – sorry. Strategic origination platforms which comprise about a quarter of Athene's portfolio returned 7% in the quarter as several of our investments continued to perform well given the contractual and predictable nature of the underlying assets. The remaining portion of the alternatives portfolio contains strategic Retirement Services investments, which had a 3% annualized return despite drag from one public position. Retirement Services industry observers are generally aware of an accounting policy change that is approaching next year called Long-Duration Targeted Improvements or LDTI. While other companies may experience significant impacts to their balance sheets with the implementation of LDTI, we do not expect the adoption of this standard to have a material effect on our results or capital levels given recent purchase GAAP accounting adjustments made in conjunction with the Athene merger close.

Turning to principal investing, we reported PII of \$20 million, or \$0.03 per share in the second quarter. We recognized realized performance fees of \$151 million. For the first-half of the year, our PII comp ratio equaled 57% and is trending towards our long-term target of between 60% and 70%. Given continued weakness in the public markets, we expect monetization activity will remain light in the back-half of the year which will likely result in PII for 2022 below our target of \$1 a share on average over the planning cycle. We're using our overall strong cash flow generation to capitalize on the current equity market dislocation. As part of our five-year plan, we expect to generate \$15 billion of capital to use for shareholder value creation, including \$5 billion to fund the base dividend, \$5 billion for our strategic growth investments, and \$5 billion for dividend growth and opportunistic buybacks. During the second quarter, we spent approximately \$230 million to repurchase 4.3 million shares, including 3.6 million from our opportunistic share purchase reauthorization. This repurchase activity served to offset the 3.9 million of shares issued related to our acquisition of Griffin Capital. We will continue to evaluate the benefit between allocating capital towards opportunistic buybacks and long-term investments in view of our share price. We feel very comfortable with our liquidity position in this macro backdrop. At the end of the quarter, our net balance sheet value was \$2.1 billion or approximately \$3.48 per share which included cash and equivalents of \$2 billion. Our financial strength was further validated by third-party rating agencies over the past few months. In May, Fitch upgraded Athene's ratings from A to A+, reflecting a better confidence in our earnings outlook and capital strength. And in July, Moody's assigned its strong first-time investment grade ratings to both sides of the

business; A1 for Athene's Insurance subsidiaries and A2 for Apollo Asset Management, within their assessment Moody decided Athene's strong market positioning and capital levels as well as the scale, breadth and performance of our Asset Management business. We view these assessments as an important third-party validation of the financial strength of the combined franchise and the enhanced financial flexibility we possess together.

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

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Please, stand by while we compile the Q&A roster. Our first question comes from the line of Glenn Schorr from Evercore ISI.

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**Glenn Schorr**

*Analyst, Evercore ISI*

Q

We're interested in the AAA product. I wonder if I could ask a couple of quick follow-ups on fee structure, liquidity and K-1 Form 1099 and then how the securities port over – at what Marc is there a third-party involved? Just curious on all that. Thanks so much.

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**Marc Jeffrey Rowan**

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

A

Glenn, thank you. It's Marc. I will be somewhat circumspect in what I can say because we're not – this is not a marketing of AAA. But suffice it to say that essentially what investors are being allowed to do is to invest side-by-side with a roughly \$10-billion portfolio of 180 different investments that have been curated specifically for Athene over the past 12 to 13 years. In terms of porting them over and the valuation, Athene has produced audited financials and NAV for as long as we've been having these conversations. And in fact, there are visible marks in every quarter. And so you should assume that everything was ported over at NAV.

In terms of liquidity, for Athene and for institutional investors, they are coming in and they are essentially not – they're agreeing not to take liquidity for up to five years. For Athene, as you know, we expect Athene's participation in this to go from roughly \$10 billion to \$20 billion over the next five years, just based on the forecast of Athene provided at Investor Day. For investors who want more liquidity, there is a slightly higher fee structure and liquidity is limited to 5% per quarter at NAV across the vehicle.

Keep in mind that this is a replacement for equity rather than private equity. It has the characteristics and the benchmark. It's benchmarking against the S&P with historical volatility level, more consistent with fixed income. So hopefully, that met the – I mean answered all your questions.

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**Operator:** Thank you. Our next question comes from the line of Alexander Blostein from Goldman Sachs.

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**Ryan Bailey**

*Analyst, Goldman Sachs & Co. LLC*

Q

Actually, Ryan Bailey on behalf of Alex. So regarding the \$13 billion that was committed [ph] just off (00:46:48) of \$110 billion, you're expecting record contribution from the Global Wealth channel. Can you help us think through how much of that \$13 billion was reserved for distribution partners and does reserved mean the same thing as a

typical commitment? And maybe you could just – if you could just give us some color on who those distribution partners were sort of categorically. That would be very helpful too please.

**James C. Zelter**

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

A

Well, let me just say that the vast, vast majority is the institutional channel which we know and which historically been part of us. A non-material amount was the non-traditional institutional channel or the Global Wealth channels. There's four parts to that but historically whenever we've gone off the Global Wealth channel, they've all come back with commitments well in excess of their allocation. So the big picture is really \$13 billion. The big picture is really the institutional business has driven us. Now, certainly as we talk about Global Wealth playing a larger part of our fundraising from 5% to a larger portion over time. They are participating in Fund X but it's really an institutional story like it always has been.

**Operator:** Thank you. Our next question comes from the line of Craig Siegenthaler from BofA.

**Craig Siegenthaler**

*Analyst, BofA Securities, Inc.*

Q

Good morning, everyone. My first one is on cash flow. I'm curious how much capital did you dividend up to Apollo from the insurance entities in 2Q relative the \$442 million of spread related earnings?

**Martin Kelly**

*Chief Financial Officer & Co-Chief Operating Officer, Apollo Global Management, Inc.*

A

Hey, Craig. It's Martin. So, we're using the same frame that we outlined last year which is \$750 million per year, so we're just putting away that each quarter. Athene is clearly very profitable and generating cash flow but it's also growing significantly. And so we would expect that level of cash flow upstreaming to continue at current levels and we'll reevaluate that from time-to-time. But Athene has massive growth opportunities in front of it and that's contributed to the \$24 billion of inflows so far this year.

**Marc Jeffrey Rowan**

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

A

Right. Craig, assume it's just evenly over four quarters.

**Operator:** Thank you. Our next question comes from the line of Patrick Davitt from Autonomous Research.

**Patrick Davitt**

*Analyst, Autonomous Research LLP*

Q

Good morning. Thanks. My question is on capital. I guess Marc do you still view the stock as the best use of capital here and through that lens is the 2Q kind of run rate, a good guide for what you can do for the quarter as long as the price is this way?

**Marc Jeffrey Rowan**

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

A

Look, we – I don't want to think we're unique. Every management team thinks their stock is undervalued. We particularly think our stock is undervalued. And we had the flexibility this quarter to buy it back and we did. As I have said previously, one needs to earn the money to spend before you get to spend it. So, we have a framework that we think about in terms of capital allocation which Martin went through, which is roughly \$5 billion for the

existing dividend, \$5 billion allocated to growth, and \$5 billion which we have the potential to be flexible on. And clearly at these current levels, I – there's no lack of unanimity in the room, our stock is the best place for that capital.

**Operator:** Thank you. Our next question comes from the line of Brian Bedell from Deutsche Bank.

**Brian Bedell**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Folks, I have a bunch of questions on AAA, I'll just limit it to a couple for now and get back in the queue if they're not answered subsequently. But maybe just to be clear on the investment strategy for this, is this very similar to the Athene portfolio that you profile on page 16, so kind of targeting a, let's say, 11% normalized return? And then maybe any commentary on how – if that's not the case, how this might be managed differently such as like having a dynamic allocation feature?

And then if you're able to talk about the performance fee structure at all in terms of just how we should be thinking about if this grows like you say, Marc, to be the biggest fund, how to be adding to your performance fee – related fees. And I imagine it's very different for the institutional classes versus the retail classes.

**Marc Jeffrey Rowan**

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

A

Let me start in reverse. It's not very different. What's interesting here is our approach to this. This is a fund that we started that down the road to create for high-net worth. And the concept here was to really do something that the market had never seen before. No capital calls, no J-curve, \$10 billion of aligned capital, some liquidity for high-net worth, no liquidity for institutions, no two layers of fees. Athene, as a large institutional investor, you should assume strikes the hardest bargain and is generally the lowest fee payer.

So, we start with the notion that we should not charge fees on top of that and that the investor should have the single best experience. The way that manifests itself in terms of positivity for our business is we had \$10 billion of capital; that is now \$15 billion of capital which is accelerating our investments in platforms, it's accelerating our investments in co-invests, it's accelerating our investments in new funds, and the underlying economics are simply passed through. It's a flywheel. This is how we scale our business. What was interesting is although we designed this product for retail, along the way to the retail launch three very large institutions thus far have concluded that this actually meets all of their needs: Diversification, by vintage and by product; no capital costs, no two levels of fees. And so, we are fortunate to be able to launch the product with \$15 billion of commitments; \$10 billion in-house, and \$5 billion from three large institutional investors.

I'm very optimistic as to how this goes, but like every retail product, it's now up to us to implement and to prove success. I also like that our benchmark here is not private equity. Private equity as I've said previously is a fabulous business but it is not infinitely scalable. What I like about this is we have lots of opportunities to scale it because the return targets, while I'm not advertising, are much more consistent with premiums to S&P 500 and premiums to where we have assumed a normalized rate of return rather than something that begins with a two-handle or high-teens. So hopefully that's sufficient.

**Operator:** Thank you. Our next question comes from the line of Rufus Hone from Bank of Montreal.

**Rufus Hone**

*Analyst, BMO Capital Markets Ltd.*

Q

Oh! Hi. Good morning. Thanks for taking my question. I wanted to come back to the Global Wealth business and appreciate your comments on AAA. But you've talked about one to two new products per quarter for several quarters. And I was curious how does that pipeline look and what products are you particularly excited about beyond AAA? Thank you.

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**James C. Zelter**

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

A

Sure. Thank you for the question. So, when we were in Investor Day last year, we really talked about having – we talked about products really in two big buckets: Perpetual products and episodic products. And at that period of time, we arguably had three to four products; one in the perpetual area of Apollo Debt Solutions. And a couple more in the episodic.

Turning the clock forward to now, we really have almost nine products in the perpetual, probably a handful more in the perpetual than we do in the episodic. You all know about the Apollo debt solutions, our non-traded BDC. People also may recall that when we did the Griffin transaction, we inherited a couple of vehicles. So, really the product set is growing. It's broad. We're making sure – there's a theme here that Marc has mentioned: We want to obviously execute on what has been proven to garner demand, some Yield and BDC and REIT products but we have a variety of a broader approach that we're bringing. So very, very happy with not only the feet on the ground in wholesaling and product creation and selling agreements but the product set is really...

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**Rufus Hone**

*Analyst, BMO Capital Markets Ltd.*

Q

...investors think about the investment, maybe what it competes with as an asset class and is there any sensitivity there to credit spreads moving in and out?

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**Marc Jeffrey Rowan**

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

A

Again. It's Marc. I'll start at the back. The answer is no. We run a matched book and we offset the liabilities that we take on in the Retirement Services business with fixed income at roughly the same time we take them on. Changes in credit spreads do not matter.

The initial ADIP was for \$3.25 billion. ADIP has performed extraordinarily well. As I sometimes joke with some of you, those in particular who have had a more negative view of Retirement Services. It's such a negative business that investors compete and pay us fees to be able to invest in Retirement Services.

We expect to go out and raise a successor to ADIP 2 – ADIP 1, based on the success and performance of ADIP 1 which is well-ahead of the benchmark's promise to investors and would expect the fund would be somewhere in the \$3.5 billion to \$5 billion range, consistent with how we see growth in the retirement services sector in the US.

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**Operator:** Thank you. Our next question comes from the line of Jerry O'Hara from Jefferies.

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**Gerald Edward O'Hara**

*Analyst, Jefferies LLC*

Q

Thanks for taking my question this morning. I guess with respect to the allocation to alternatives within the Athene portfolio, this is clearly proving to be a strong diversified return stream. So, curious if there's any consideration of

increasing that allocation? And then I supposed on a related basis, is there any concern of increased regulatory oversight as clearly some of your peers have taken a similar approach? Thank you.

**Marc Jeffrey Rowan**

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

A

So the answer is we historically at Athene, have run a 95% plus/minus fixed income book of which better than 90% of that is investment grade. And there is no plan to deviate for that or to take increased exposure to alternative investments.

In terms of regulation, Retirement Services is a regulated business. We have, over the past 12, 13 years, developed the expertise to operate in this business, and fully expect to continue to operate in the manner and the methods by which we have operated today. I think there has been a significant tuition paid over a better part of a decade, which others who would like to do what we have done are going to need to pay.

**Operator:** Thank you. Our next question comes from the line of Chris Kotowski from Oppenheimer.

**Chris Kotowski**

*Analyst, Oppenheimer & Co., Inc.*

Q

Mine were actually asked and answered. Thank you.

**Operator:** Thank you. Our next question comes from the line of Adam Beatty from UBS.

**Adam Q. Beatty**

*Analyst, UBS Securities LLC*

Q

I want to ask about organic growth in Retirement Services. At the Business Update, you pointed out the historical kind of ability and willingness to shift the emphasis among the four different channels based on prevailing conditions. So assuming your overall target is still good for this year, just wondering, given the distinct backdrop that we have right now where you're seeing opportunities and where maybe you're hanging back a little bit more? Thank you.

**Marc Jeffrey Rowan**

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

A

Look, the two strongest channels are clearly the retail fixed annuity channel which is going as strong as it has ever gone. I mean I think Jim and Martin cited that applications are up 100% year-over-year, record quarters, record weeks almost every week.

The other place we're seeing really strong growth is in pension group annuities. The tick-up in rates, the tick-up in spreads have given those entities that were close to being able to close out an older retirement plan a greater ability to do that. And we are watching that very carefully and had a very strong first six months. We're also seeing good progress on reinsurance, particularly on the flow basis.

The one engine that you would expect that is not firing is the FABN market which is negatively impacted by higher rates and higher spreads. But there's been plenty to do. And the numbers as you know are well-beyond the record year that we had last year and continue to be very strong and they're actually quite strong across the industry. This has been a pretty good year for the whole sector. Although if you don't have lots of excess capital, you're not really able to take some advantage of it.



**Operator:** Thank you. Our next question comes from the line of Patrick Davitt from Autonomous Research.

**Patrick Davitt**

*Analyst, Autonomous Research LLP*

My follow-up was asked. Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Brian Bedell from Deutsche Bank.

**Noah Gunn**

*Managing Director & Global Head-Investor Relations, Apollo Global Management, Inc.*

Brian?

A

**Operator:** One moment while the participant's line loads. His line will be open momentarily.

**Noah Gunn**

*Managing Director & Global Head-Investor Relations, Apollo Global Management, Inc.*

We can move ahead to the next question.

A

**Operator:** Our next question comes from the line of Glenn Schorr from Evercore ISI.

**Noah Gunn**

*Managing Director & Global Head-Investor Relations, Apollo Global Management, Inc.*

Glenn?

A

**Operator:** Pardon me one moment while his line loads.

**Noah Gunn**

*Managing Director & Global Head-Investor Relations, Apollo Global Management, Inc.*

Maybe that's a good place to end it if we're experiencing technical difficulties. On behalf of our team, I'd just like to thank everyone for joining this morning and for your continued interest in our business. Of course, as usual, if you have any follow-up questions on anything discussed on today's call, please feel free to reach out to us. And we of course look forward to speaking with you again next quarter. Thanks, everyone.

**Operator:** This concludes today's conference call. Thank you for participating. You may now disconnect.

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