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Apollo Global Management, Inc. (APO)

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CORPORATE PARTICIPANTS

James Charles Zelter
President & Director, Apollo Global Management, Inc.

OTHER PARTICIPANTS

Patrick Davitt
Analyst, Autonomous Research LLP

MANAGEMENT DISCUSSION SECTION

Patrick Davitt

Analyst, Autonomous Research LLP

Good afternoon, everyone. I'm Patrick Davitt, the US Asset Manager Analyst here at Autonomous. It's my pleasure to welcome back Apollo's President, Jim Zelter. As a reminder, if you have any questions you'd like me to try to throw in, you can submit them through the Pigeonhole portal. And I will get them here on the iPad and try to throw them in as time allows.

So, Jim, thanks again.

James Charles Zelter

President & Director, Apollo Global Management, Inc.

Always, always a pleasure being here. Appreciate your interest and the folks in the audience learning more about our company.

Patrick Davitt

Analyst, Autonomous Research LLP

For sure. And it does feel like a broken record at this point when we're sitting at this event in terms of another winter and spring of volatile events.

QUESTION AND ANSWER SECTION

Patrick Davitt
Analyst, Autonomous Research LLP

Q

So, as I do, given we have most of the major alternative managers at this conference. I want to start with some higher-level macro questions. So we've got a private credit freak out, concerns about sticky inflation, higher-for-longer rates, risk of slower growth. Do you agree with all of these concerns? And what is Apollo's and your current thinking on inflation rates in the economy?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Well, I think that just taking a step back, I think every investor in credit post-GFC has a greater ear to the ground on the global macro.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

The interconnectivity of all these markets is critically important. And you and I spent a lot of time and I'm happy to talk today about some of these big trends, whether it's the global industrial renaissance or the evolving banking system. But, yes, I do think that we've been pretty consistent in the last year or so about higher-for-longer. Torsten has been very public. Marc and I've been very public about the concern about inflation, it was much more concerning and pervasive than the concern of just lower rates. Notwithstanding a lot of the talk about from the administration. So I use the analogy of golf. I said in the middle of fairway, things are nice, massive CapEx cycle, a big M&A cycle, risk on equity mentality, good corporate profits, the challenge is – and in the rough inflation, global fragmentation, the crisis in the Middle East. The problem is that fairway is getting narrower and it feels like it's the narrowest fairway we've had in a long time. And I just think that when you think about tail risk, not only is it a higher degree of tail risk, but when tail risk comes you have a higher degree of potential impairment and loss. And so putting those together, I think you have to be very vigilant about how you're investing today. And you have to be very thoughtful about trying to predict the future, in terms of these big trends. And so, I do think we are in the business of putting money to work. But again a lot of it depends on the liability that you've been given.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

If you've been giving a PE mandate and your liability is 25%, 30%, having a little bit of equity on top of a levered balance sheet, you better be pretty sure right now. But if you're investing with investment grade companies that are taking some of the best business models of all time, you want to be their partner. So again, this all depends, but I think it's the idea this is a surprising environment. I think you've sort of been asleep, if you think...

Patrick Davitt
Analyst, Autonomous Research LLP
Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

This is surprising. I think there's a lot of disruption happening around the globe. And I think you just need to really prepare and you can't predict it, but you can prepare for it.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

That's helpful. And kind of following on that. I think Marc's prepared remarks on the last quarterly call were particularly pointed with the suggestion that Apollo is positioned for some fairly significant social and economic upheaval in the coming years. Could you expand on what exactly you're seeing that has you guys concerned? And how is Apollo positioned with this seemingly quite dour outlook?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think, if you have an environment where government balance sheets around the globe are pretty well hocked, you have a rising K economy. You're having arguments about access to opportunity. You have access to – education is prohibitively expensive. You have to assume a different administration and leadership is going to create different regulatory environment. So for us it's in a world where technology and AI is disrupting. And you don't know what the truth is. Things such as brand, reputation, really high ratings, a fortress balance sheet, I think those are strategies that will win in many cases. And so tying those together as you execute your business strategy is really important.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Okay. So let's switch gears to the investment environment. You posted a very strong origination quarter and Marc's outlook was quite constructive on how things are tracking in 2Q. How would you characterize the origination platform? And and where are you seeing the most compelling opportunities?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah, so from our Investor Day we talked about the ecosystem which we've created. We called it our Mona Lisa. We talked about bank partnerships, our origination platforms and then what Apollo does on our own, our CRE lending, our CLO lending, our high-grade capital solutions. The area that's the most profound with a pipeline right now is the area of our HGCS, our high-grade capital solutions.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

There's, we've talked about this industrial renaissance, investment grade-led companies in a variety of industries and geographies. And those companies are really where we're spending a tremendous amount of our time. So, if there was one contributing factor to a bit more bottom line origination and spread, it would be that high-grade capital solutions. A handful of deals to-date already this year in the second quarter, but a very – probably the deepest pipeline we've had historically in that high-grade capital solutions as we sit here today, some in the next two to four weeks, some in the next two to four months. But certainly I think they will have an impact on the second and third quarter in our volumes and numbers.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

So that's a good – that dovetails nicely I think with capital solutions fees, your transaction fees.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Which I think are somewhat tied to what you just said on the high-grade capital solutions. That result was much better than I think anybody expected given the environment in the first quarter. So, how should – through the lens of what you just said about the pipeline, how should investors be thinking about the trajectory of that fee stream given the kind of uptick in the pipeline?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah I think, I alluded to a couple of years ago trying to turn that business. I use the analogy Goldman Sachs to the Bank of New York.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Less lumpy, more predictable, more longer-term, more consistent. Maybe not the same growth rates, but less volatility. And I think we're doing that right now.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

I feel more comfortable with our long-term objectives of what that number could go to. And I feel more confident in terms of the, I hate to use the word predictability, but the comfort that investors should be accustomed to and our ability to do that. And I think that a of it is tied to the breadth of the business. We don't want it to be four or five large transactions. We'd like to make it 20, 30, 40. And so the volume and the spread of those volume is consistent with that. So I think we feel – sitting here today basically end of May I feel confident about our ability for this quarter and the rest of the year to produce those results.

Patrick Davitt
Analyst, Autonomous Research LLP Q

Great. Moving to capital formation. As it seems like pretty consistently now, you gave very constructive comments on the broader base capital formation environment you're seeing across the business. How did – how should we think about capital formation evolving within your six big channels that you've highlighted on the recent calls?

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

Yeah, if I said – I know everybody in the room is focused on global wealth, global wealth, which I'm happy to talk about. But I would say that institutional is back, like...

Patrick Davitt
Analyst, Autonomous Research LLP Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

Its demise was predicted and it's not happening. So, when we think about the six channels, whether it's insurance, fixed income replacement, traditionals and otherwise, I definitely think that institutional demand is very strong across credit infrastructure and hybrid. We're getting a good take up in our private equity vehicles, I think that's the dividend of a good discipline over the last several years. So we feel exceedingly strong about the year-over-year growth in our broad institutional businesses and the variety of other channels that go along with that. I think to global wealth, certainly one product the non-traded BDC has come under some scrutiny, more for perceived concerns than actual performance.

Patrick Davitt
Analyst, Autonomous Research LLP Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

So the headlines are certainly louder than the spread widening, but that being the case, you saw elevated redemptions in the first quarter. I suspect you will over the next couple of quarters. I don't think it was a one shot. That being said, I think you're finding underlying performance in March and April and May be solid and consistent. Maybe that'll dampen down some of the redemption. But what you're also finding in global wealth is there's differentiating – differentiation going on between different channels. Between the wirehouses, the RIAs, and other independent wealth channels. Some are – some tend to be depending on the geography a bit stickier, some depending on the channel and the manner in which you have one decision maker or many decision makers. So I think, we're learning where – who are our longer-term friends and who are the shorter-term tourists.

Patrick Davitt
Analyst, Autonomous Research LLP Q

So on that, how would you characterize the pipeline mix of the redemption requests we've seen thus far?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah. I would say, I suspect you're going to see, it's still early the way that our vehicles work, you really don't know until basically this week.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

A few weeks. So I'm predicting. But having done this long enough, I would not suspect a dramatic decrease. I would suspect a maintenance of the levels of the past maybe even a little bit of an increase as people want to game the system.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

So, I think that's my professional judgment would say, don't – we're not through the turbulence yet.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

I meant more like which pipeline is proving to be less sticky I guess.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think it'd be inappropriate before I get the numbers. But I do think, there's certainly channels that are much more focused on a portfolio solutions than a product solutions.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Okay.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

And those that are much more focused on portfolio solutions tend to be stickier.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Got it. So, staying on the wealth topic. Obviously been a lot of noise on one kind of specific part of the market. Direct lending or non-traded BDCs. What are you hearing from your distribution products and partners in wealth? How is it impacting their view of...

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

... yeah.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Increasing allocations to these products?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think they all believe that their penetration is still low versus institutions and the long-term penetration will get higher. I think they look at this as a pebble in the shoe.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

It's a little bit painful in the short-term, but sooner or later you'll take the shoe off and get rid of the pebble. And so, I do think there will be a variety of product expansion innovation. And I think there will be over time some winners and losers. So I just think these periods of disruption create a bit of a moat of intermediaries that aren't as sizable and scale to participate.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

You need to have a lot of resources to be able to respond and engage and educate. And the requirements are just getting more and more. So I think they're looking for long-term partners.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

So through that lens, it stands to reason, the real winners in that channel are probably already decided, and you'll be one of them.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think if you've not really established a large distribution platform, large partnership, education, academic institute, online technology and a broad suite of products, I think it's very hard to break in now. It's almost like the bulge bracket banks, it's very hard to disrupt the incumbents. Now I don't think all the seats have been taken, but I think a variety of seats have been taken. Now you can lose a seat.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

You can lose a seat from performance or brand or not delivering what you've said. But I think it's very hard to gain a seat.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Got it.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Much easier to lose a seat than gain a seat.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

One more quick one on wealth. I think a few years ago, you were talking about launching one or two products a quarter. You've kind of stuck with that and you have a nice suite. Are there still any kind of pockets on the wealth side that you think you need to be launching new products for? Or is the suite pretty well established?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think we're pretty well. There's no – the decisions we've made to not do certain products were conscious decisions.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

That I don't think notwithstanding some of the more recent fundraising, I think those will be products that still undergo some degree of scrutiny or volatility. And if anything, I'm more focused on brand and the client experience than ever before. I think that returns are very important, but there's a variety of other factors that are pretty important as well. So I think we're really in execution mode right now. I think there's times when there's market disruption and it's just really about education, communication and performance. And I think, we're at that period right now.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Okay.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Especially in the non-traded BDCs.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

So I think we've hit all the kind of concern points out there right now. So let's move kind of to the growth algorithm for Apollo. You...

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

... I like that. You did 12 minutes on the problems and 34 minutes on the opportunity.

[indiscernible] (00:14:59)

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Trying to stay positive.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah, yeah.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

So you had a great first quarter result, reiterated 20%-plus FRE growth for this year and for longer term. So for those that might not be familiar as familiar with your story, maybe quickly unpack the key building blocks to that industry leading view? And to what extent this year's volatility has made you more or less confident in hitting those targets?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah so for those who are less familiar, we really have – with the holding company, it's public, two real operating subsidiaries. Apollo Asset Management that manages all the assets on behalf of third parties as well as our regulated balance sheet. That's the fee related earnings and the performance incentive income, the PII. So two parts of our business. The other part of our business is our regulated balance sheets Athene, Athora, PIC, and otherwise. That's spread related earnings.

The FRE has historically grown in excess of 20%. The Athene SRE, we signed up to long-term growth around 10% on a compounded basis, both compounded. We've exceeded both of those targets historically. We've on virtually every occasion, every quarter exceeded the FRE. There's been some quarters where long-term trend is on SRE growth. I think the fundamentals on the asset management side, you're hitting on it. We see as our business has expanded from our private equity business to private equity, mostly a credit product set, but with infrastructure and real assets, massive institutional demand around the globe, massive demand from third-party channels, from traditional asset managers, from insurance companies, from what we call fixed income replacement. So a lot of drivers to that around the globe.

And as the demographics of pensioners and retirees gets older, there's a greater desire to de-risk the equity and put more into fixed income and credit. So we're getting the benefit of that along with secular trends about the banking system and the role that private capital plays. So just a tremendous amount of drivers from the demand side of our – of those products. On the other side of the equation at Apollo Asset Management, companies right now we're in this middle of this global industrial renaissance. The amount of companies that are looking for large scale solutions that they can get done in the IG market, in the bank market, and private credit, none of those markets are big enough on their own to solve all these problems.

I think there's a greater awakening that the CapEx needs are so great. It's a combination of those things. So to your point, all the demographic trends, all the secular trends and the execution of our model is hitting all strides on the asset manager. And I think that the perpetual capital benefit of our vehicles, people are seeing the benefit of that flywheel in our AM business. On the other side of the business, the regulated balance sheet, spread related earnings. There's more – annuities do well, they've done well the last 10 years. They continue to fulfill a need for a population that's getting older, some pie is getting wealthier and they want more predictable income. And annuities are a great product there, we're the leading annuity player in the US with a leading market share, low double-digits. And so our ability to bring in liabilities from retail, from PRT, pension risk transfer as well as the FABN, fixed annuity backed notes or repo, those all increased. So a lot of just great demographic drivers to our business.

Now on the balance sheet side, on the SRE side, slower growth because of the regulatory capital that's needed. And you're just talking about a smaller margin business of – you're trying to make 120 basis points to 130 basis points on the annuities. And so – but very good demographic drivers, I do believe that the ability for the asset management and the retirement services business to create products in the future between the chocolate and the peanut butter. And I think that's still very early days. And I think that when we think about one of the big challenges around the globe is we've done a terrible job in dealing with preparing retirees, broadly speaking for post-retirement, yes people are getting older. Some countries have done a good job. Canada, Australia in terms of the superfunds, the other pension vehicles. But post-retirement, how is that dealt with? How do you deal with like guaranteed lifetime income? How do you really prepare people to be comfortable to spend what they've saved without running out of capital? I think there's a whole host of growth options there.

But the businesses you described right in front of us. And I try to describe Apollo in a very simple fashion is, we're the box in the middle between companies needing to raise capital for growth, expansion, diversification and retirees around the globe that need either pension or retirement solutions. And both the left side and the right side we have a great secular tailwind to our back. So I think that's what we make our business much better. But we also have to execute and that's the secret sauce.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

So on the insurance points. Apollo and Athene for better or worse receive a lot of attentions in the press. And in some ways I think are seen as the poster children for alts and insurance business model. To your credit, you've been kind of an industry leader in terms of transparency and disclosure and there's a lot of presentations on both Apollo and Athene's website. As you read through this barrage of press, what are the major misperceptions from your point of view? And do you have any incremental thoughts on what else you guys could do to help assuage those concerns despite already doing a lot?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah I think that – let me tell you what I think we're doing that I think that we're – you can either fight the conversation or engage in the conversation. And we'll probably try to do a bit of both, but first engage. So to your point about three or four weeks ago we put out on a Friday what I would think is the seminal piece on the portfolio breakdown of the Athene book, all the sub-asset classes in granular detail. We put out a second piece on our alternatives book, the granular detail. And the third piece was all the affiliated or related party.

So the compendium of all three was a – I don't want to say a shot across the bow, but it was our attempt to say, listen, if you want to shed light on it, let's shed the light on the facts. And we've had a universal great response from regulators, from industry, consultants, and folks that are in the know on really what matters. I'll give you a great example. On the related party transactions would sound like really bad. Along the transactions we've done intel per se that we actually issued and actually monetized to a great return because we couldn't own the whole thing for good diversification reasons that gets tied up in the related party transactions because the strip of the investment is equity and we needed to account for that. So a lot of times it's actually not a flaw, it's an attribute. And so, I think our choice has been just to really engage, engage.

Now in the world that we are in today, a lot of folks who cover these complicated businesses don't have the historical benefit. I'm being very polite here to understand really how these businesses work. I think the thing that, if I could push back at one thing, I would push back on PE controlled. The idea that Apollo happens to be an alternative manager, we happen to have a PE business.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

But the idea that the PE funds control our insurance activities, that couldn't be further from the truth. So I just think it's a massive amount of education. We spent a lot of time talking about private credit, we think we wrote the seminal white paper on private credit. Most people define private credit as non-investment grade direct lending. We think that's a historical term, that's not really relevant today, but it's a name that the moniker has stuck. We talk about private credit being the investment grade, $40 trillion activity set. But I think that it's going to take just time and more folks to get up to speed and educated. I mean I have the good fortune of going through been a junk bond trader. And then I was a high yield trader, and then I was in leveraged finance. My job didn't change, but the nomenclature of my job changed, so.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Fair point. You touched on retirement a little bit. I want to unpack it a bit more. You've obviously put a lot of material out there kind of citing this $45 trillion global retirement market, a billion people worldwide reaching retirement age. How – more specifically is Apollo and Athene pursuing this opportunity, how does that differ across the different regions? And given you always say the real constraint on your growth is the ability to originate good assets. Are there even enough good assets out there to truly address the volume of TAM you're talking about here?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

No. But I think that the – to answer your question directly, there aren't enough good assets, but we're not in the market share game.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Right.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

We're just trying to make sure that those investors that we offer a retirement solution for, that we have the tools of our origination at their disposal as part of their proposal, part of their portfolio. Not all of their portfolio, but a portion of their portfolio. Turn a 5% to 6% distribution rate into a 6%, 7%, 8%, and that's real dollars and cents for your average retiree around the globe. So I do think that working with the embedded infrastructure of Australia, the US and Canada, our move in the UK and PIC to be part of the pension risk transfer market. There's no one solution that's the silver bullet around the globe, but it's really working within different countries, different geographies, different regulatory regimes to be part of that.

But our biggest focus is on the US, is on the UK, a bit of Western Europe, Korea, Hong Kong, Singapore and Australia. That's really where – we're not spending a lot of time trying to figure out retirement solutions in Latin America, which is really a very robust marketplace and a lot of reforms taking place. We're not – we are spending some time in Japan, but we're not spending time in China, we're not spending time in Eastern Europe or Southern Europe. So I do think we just – we choose with our locations, yes.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Got it. So the most kind of tangible impact on your results from the insurance business is spread earnings. And the tone on the earnings call, I think suggests that maybe we've turned a corner after some challenges that faced – that business faced over the last couple of years. So could you walk us through the underpinning assumptions and confidence behind the new outlook there?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah I think that we had a swath of some very high spread business.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

That we originated in COVID. That between the product set happened to roll-off and we had a compression of spreads. But when we think about our ability to during either Liberation Day or other periods of time, either use a variety of market moves to actually source a variety of assets or our origination kicking in. I think, we feel comfortable that we are in a more balanced situation now and have gone through that little bit of that pig in the python, in terms of the marginal returns being a little bit lower than our long-term average.

So I think we feel comfortable with it right now, it is a more competitive space with folks entering the marketplace. I find it strange that people celebrate their entry into the marketplace and not their success at the marketplace. But yeah I think over time you need to generate mid-teens, return on your ROE or the capital you have is going to disappear. We have a success of doing that. And I think that we're not in the view that we have to grow at all cost, it's actually smart growth and shrewd growth. But I think that our model has shown. We've been able to generate that kind of spread return and make it appropriate. The other thing I would say is by deciding how you want to issue business, that does release some capital. So we can be thoughtful about releasing capital if the growth options aren't as profound.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

On the competition issue, Apollo has been quite vocal about the capital arbitrage in the Caymans, which I imagine is helping those more marginal players stay more competitive with Athene. Is that a fair view? And what are you doing to raise the issues with regulators?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah, I think we've been very transparent and very public how equal capital for equal risk. And we see the long-term, I mean like the banking system those that are large and well-capitalized, we pay the bills when someone else goes off the rails. And so, we've gotten bills the last couple of years when folks – when insurance regulators in North Carolina or other states had to come on in, and we prefer not to pay those bills. And so, no different than the incumbent large financial institutions i.e., banks, when they bark about an un-level playing field, which I would say we actually are regulated, this idea that we're not regulated...

Patrick Davitt
Analyst, Autonomous Research LLP
Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Is not correct. But certainly when we see what the regulatory arbitrage with the Caymans is, we don't think that's long-term healthy for our business, it allows incremental capital, that's not as deep and broad and experienced to compete. And there will be a time when that's a problem. And we will certainly be called on to fix it. So we prefer to snuff it out, before it becomes too big of a problem.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Got it.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

But we've been – Marc has been very vocal in our allocation of responsibilities. Marc takes more of the regulatory, I do as well, but not to the degree. But he has certainly been a leading voice...

Patrick Davitt
Analyst, Autonomous Research LLP
Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

In that mantra.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

And you think there's movement on that issue or is it hard to say?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think that regulators, you first have to engage with them, you have to dialogue with them publicly and privately. I think regulators – going after regulators is probably a hard thing for them to do.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

So I do think that – yeah I'm optimistic. But I'm not optimistic in the next quarter.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I think it's going to – it's a longer term. I think we're on the right side of history, it's always nice when you're on the right side of history.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

For sure.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

But I don't think it's going to happen tomorrow.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Last point on kind of the spread earnings build. There's obviously kind of, I guess, perennially a lot of focus on the alts return, the 11% target. Could you kind of walk through again what caused that to come so far below target in the first quarter? And why you're still confident in kind of hitting that 11% long-term target?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah I think that we're not immune to market moves. I think we buffered the moves that were – because of some of the volatility in the equity market. We hit a lot of those air pockets, but I think that if you look since origination day one, our AAA since day one we've been able to exceed that target. And I think we've been very thoughtful about – in the protective nature of having a lot of liquidity and a lot of excess capital to make sure that we don't get off-sized. We maybe were a little bit too protective, but I still feel that the objective is appropriate for the long-term.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Got it. Okay. One of the more interesting announcements on the call was your new AMAPS product.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Created a little bit of buzz at least in my conversation. So, I think it'd be helpful to quickly give this audience an overview of. One, what exactly the product is? Two, how big you think this opportunity is? And three, how it differs from CLOs? And four, how it, how it provides excess spread without incremental risk?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah, so just to level set for the room. CLOs, collateralized loan obligations, that really is over the last 10 to 20 years has developed into a $1.5 trillion asset class that really is the home for a lot of the broadly syndicated loan activity coming out of the banks for the buyout activity. And it's the rigorous rules around the CLO market and bank balance sheets that led to the direct lending market, but that's another story.

So over the last 7 to 10 years, Athene desiring to not just buy corporate investment grade debt, we bought a lot of CLO liabilities that through the GFC were never really impaired, but they were all rated as structured credit, AA, A, BBB, etcetera. And the marketplace has gotten so large and vibrant and so efficient and the pricing of the liabilities on the debt side has come down that it is driving up pricing down in the broadly syndicated loan market to SOFR 300 or so, on an asset that probably should be priced wider, but there's lots of demand.

So last 10 years Apollo has been a big Athene and Apollo been a big buyer of these CLOs. We were doing some work last year and said, wait a second, isn't this strange that after 20 years, the application is only on the underlying assets B and some BB rated loans? What if we could expand the purview of the assets of a structured vehicle like that, some investment grade, some non-investment grade, some public, some private, instead of operating at 10 times levered, operate at half the leverage.

So broader diversity, less leverage. And what if we could create the debt stack that works more for insurance companies rather than banks? The way a CLO works is a AAA piece is what the banks want 0 to 65, about 125 over. Great for banks, not for many other folks. So, we went to the agencies and said, we have this idea. We worked with them, we structured one that worked on paper between less leverage, the tranching that we liked that worked for an insurance company. And putting it into a variety of evergreen products at Apollo that led to a lot more diversity. Agencies gave us a sign-off, sign-off on all the ratings and then went to a partner and said we want to do four or five of these over the next year, $5 billion a clip, will you be our 50-50 partner? They said yes.

And so as of today, we've done four. We call AMAPS, Apollo multi asset portfolios. And we – then in the last month or two have gone out to syndicate the investment grade and other rated pieces. A bunch of banks have come in and we've gone out to say, you all should do this for other managers. This is a better application of the CLO engineering. And we believe this is where CLO market could go and be CLO 2.0 for a broader application. So I'm happy to report in the last couple of months, a bunch of banks have come in and help participate on these debt pieces. We've kept our pieces, we've taken our direct CLO exposure down from $46 billion to about low $30s billion. And we've said to a lot of the banks, you all should go out and do this with many of our peers like let's get – it's a new marketplace. We feel like we're a leading player, but we don't want to be just Apollo, go to B, go to C, go to A, go to K, and they should do it as well.

Patrick Davitt — Q
Analyst, Autonomous Research LLP

Okay.

James Charles Zelter — A
President & Director, Apollo Global Management, Inc.

And so we think it's a – we think it's a great product. We think it has a lot of applicability. We think the bank should like it because they get to underwrite and trade more. And there's a lot of second and third, I used the word second, third derivative applications, probably not appropriate in this audience. Just let's absorb the idea first, but...

Patrick Davitt — Q
Analyst, Autonomous Research LLP

... yeah.

James Charles Zelter — A
President & Director, Apollo Global Management, Inc.

I think there's just a lot of applications how this could really expand how we capital raise and how people get access to private credit, so.

Patrick Davitt — Q
Analyst, Autonomous Research LLP

Interesting.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

Exciting time.

Patrick Davitt
Analyst, Autonomous Research LLP Q

Yeah. So apart from AMAPS, I think the other big news coming from the call was your plan to provide daily pricing for all of your credit positions...

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

All the IG stuff.

Patrick Davitt
Analyst, Autonomous Research LLP Q

All the IG stuff.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

Yeah, yeah.

Patrick Davitt
Analyst, Autonomous Research LLP Q

Okay.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

By June 30.

Patrick Davitt
Analyst, Autonomous Research LLP Q

Okay, I thought the September date

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

September 30. September 30.

Patrick Davitt
Analyst, Autonomous Research LLP Q

It doesn't include everything.

James Charles Zelter
President & Director, Apollo Global Management, Inc. A

Well by September 30, it will include a broader array. I think some of the non-investment grade direct lending will take a bit longer.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Okay.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

But it's probably in that zip code nine.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Okay. So since most private credit is designed to be held to maturity and generate excess yield for investor. I think it would be helpful to get an update on why you believe this is the right path forward and what you're ultimately trying to accomplish.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I don't think all private credit is created to hold a maturity. I think private credit's been created to offer issuers an alternative to the public issuance market. And in turn, it offers investors an ability to harvest extra yield, if they don't need all the liquidity that they might need out of the most recent IBM bond. And I think that what investors do realize that while there may be a CUSIP on a variety of their investment grade debt, it's not as liquid.

Not every investment as is liquid as they may perceive it to be. And so, I think we've found a variety of investors who think like us, that have said, let's take a portion of that IG bucket, let's trade for liquidity that's not there and make an incremental yield. And they like that idea, but they don't want to sign-up to something that potentially could be mismarked, i.e., if it trades down or should trade down because of spread or trade up, shouldn't be just marked at par forever. I think that people are questioning just because it's private, does that mean it has to be held at par forever?

So we're challenging some of the assumptions. I think that if you look at any asset class over time, broadly syndicated loans, CLO liabilities, the more the transparency is on pricing, maybe not liquidity, but nothing else pricing, I think that gives investor more confidence, they know what's going on. More investor confidence means more capital coming in. And I think that we as a participant in that market benefit from more players than we might have in the past. So I think this is just the natural evolution of time and markets and how they operate. And so, we think this is good for our position. We think this is good for the breadth of the markets and investors' confidence and I think that when you dissect what we're doing, we're on the right side of history.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

It's like what happened, as I said in other asset classes. So there's, some folks that are very focused on the non-investment grade, private direct lending that want to hold on to the concept that the issuers don't want that to happen. I think that's not incorrect, but I think that over time it's the investors that will demand how the market operates rather than the issuers.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

On that I've sensed at least that there are some or maybe many investors that see the lack of visibility on markets as a feature more than a bug.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

So are you concerned at all that there could be some investor backlash from providing this?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah I think that those investors who just thought the real benefit is, is low or no val.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

I'm not sure that's a robust argument over time. And I'm not suggesting there has to be volatility. I'm just thinking that I think the product set will benefit from a greater degree of transparency in education. The idea of taking asset from par to zero I think is an unsettling one. And I don't know anybody that would advocate that's a good...

Patrick Davitt
Analyst, Autonomous Research LLP
Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Prudent management.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah, fair. So in the vein of everything we just talked about Apollo I think has been one of the most innovative asset managers out there. You are first mover on high-grade solutions to your point, hybrid strategies, AAA which is now I think your largest strategy.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

AAA and ADS both $25 billion.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah, okay. And now AMAPS what we just talked about. So. you probably want to show all your cards, but is it fair to assume there's a pipeline of these in the lab?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Yeah I think we are focused on market moving impact ideas and you can only come up with so many in the course of a year or so. So I think AMAPS and AAA are two good ones from right now. I think there's a lot of things we're doing, in terms of thinking about in a world of disruption, in a world of what's the truth and what really withstand that type of environment. I think things that are more infrastructure, equity that turn into more like yield products for one. But yeah I think that we've always been on the cutting edge of sort of our curious creativity that drives us, there are not a lot of patents on Wall Street. I think there's a lot of folks in our industry that would like time to stand still. I think that's a romantic concept, but I don't think it's practical.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

And the reality is, as a public company, you have to think about the evolution of creation and how to evolve. And I got to Apollo 20 years ago, we were a PE firm that had a credit business. And now we're a much different firm 20 years ends and I think that there will be a time in the future where people might say wow! They actually started out as a PE firm. Oh, I didn't know that. So that's not our objective. But I just think that's reality about where the industry is going and the solutions that we can provide on both sides of the equation,

so.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

That's helpful. Before I get to my concluding questions, I want to make sure I address the last one on the iPad from the audience, which I read it I think is probably more focused on direct lending type loans, but this person want you to expand on kind of the private credit woes we've been seeing and what Apollo is expecting in terms of loss rates going forward?

James Charles Zelter
President & Director, Apollo Global Management, Inc.
A

Well I think that this idea that – I expect there's lots of predictions from the big banks about where high yield and loan defaults will be over the next three to five years. And I use those as a starting point. And just because of the nature of direct lending and it was concentrated in software, I think, you've probably got to add a few 100 basis points of potential losses...

Patrick Davitt
Analyst, Autonomous Research LLP
Q

... yeah.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

In direct lending to the high yield and loan markets. Now I would say the higher yield loan mark has been pretty benign the last several years and there's a massive CapEx cycle. So I think there was some estimates that I think one of the banks, UBS said 15% that too seems extreme to me. So I suspect the disruption will cause a variety of defaults across all three product sets, high yield, BSLs and direct lending. But I think, if I had to guess if the 30-year average is around 3%, 3.5% default rates, the likelihood of that five-year trend being higher than that long-term trend is probably in the cards. But I don't have enough to say that's going to be dramatically higher than that right now.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Got it. So a couple more before we finish. On capital, can you refresh us on the capital allocation framework? What would allow you to lean in more heavily on share repurchases and in terms of inorganic opportunities where are you most focused?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Well, I still think, we put out our report – our five-year plan a few years ago with – increasing our dividend, buying back our stock as the two priorities and buying back our stock with – immunizing our stock from stock-based comp as well as other areas. So I think right now we're focused on those two at this point in time. We did a small acquisition last year in Bridge, I think acquisitions are hard. I think there may be some things that merit it. We're not saying no to it, but we want to make sure that we are very focused on capital allocation, the holding company with a dividend and stock buybacks. And that's our primary focus right now.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Makes sense. So to conclude, your culture is well-known across the business. Your team recently posted a culture deck for investors.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

Yeah, yeah.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

What do you think are the most important takeaways for the investor community on your culture and how it differentiates from the industry?

James Charles Zelter
President & Director, Apollo Global Management, Inc.

A

I think how we operate and how we manage is the same. We talk about clean sheet thinking, right over easy, no walls, all those things are how we operate. And that's easy because you don't have to translate how you operate to how you manage and how you integrate with the outside world. So, I think we find it a very consistent strategy. I think it's going to be more important how you recruit and retain individuals in a world of technology disruption. And so, I think it's very, very important, it's very consistent. And we love all our investors and our clients know how we run our business. So it's sort of consistent with open architecture and alignment long-term. So we're very proud of it and the more people that read it, the better off, we like it, we like it. So, thank you.

Patrick Davitt
Analyst, Autonomous Research LLP

Thank you for the time, Jim.

James Charles Zelter
President & Director, Apollo Global Management, Inc.

Appreciate it. Appreciate your audience time. Thank you.

Patrick Davitt
Analyst, Autonomous Research LLP

Thank you.