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Apollo Global Management, Inc. (APO)

Morgan Stanley US Financials Conference

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MANAGEMENT DISCUSSION SECTION

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

All right. Good morning, everyone. Thanks for sticking with us here on Day Two of Morgan Stanley's Financials Conference. I'm Mike Cyprys, equity analyst covering brokers, asset managers and exchanges from Morgan Stanley Research. And we're excited to have with us for our next session John Zito, co-President of Apollo Asset Management. John, thanks so much for joining us here this morning. With nearly $1 trillion in assets under management in Apollo, Apollo is one of the world's largest alternative asset managers.

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QUESTION AND ANSWER SECTION

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

Q

So, John, let's open with your thoughts on the macro, which feels increasingly bifurcated with higher for longer interest rates, inflation concerns, fiscal deficits, geopolitical fragmentation, and yet we still have a robust corporate earnings environment, very strong economy particularly here in the US, spreads remain tight. So can you share with us some of your top of house perspective?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

I spend very little time thinking about most of the things you just brought up. I think that I'm not joking. I think the only really thing that matters is, is whether or not what's going on with Anthropic and the labs is real or not like that. It's so dwarfing to what is going on in the world. Obviously, I'm not trying to discount what's going on in both wars, inflation, if AI is real, it's so hyper-deflationary to so many things over the long term that it's really hard to take risk. And it's probably as hard, I've been managing third-party money for almost 25 years.

I think it's as hard of an environment to probability weight what the world looks like in 12 months to 24 months, as it's been in a really long time. And that's not like – that's not for creditors or something. I mean, it's just generally really just – a really difficult environment because, you go to the valley and even just Anthropic as – even if I was here in December, I would have told you much, much more sanguine about what's going on. But Anthropic doing $60 billion of ARR and $80 billion and $200 billion in their latest filing for what they'll look like in a year. It just dwarfs everything we're doing.

I mean, Palantir took 17 years for Palantir to get to $1 billion of revenue. And so what that means for risk taking, what that means for default rate, what that means for businesses, I think some businesses are going to massively thrive, just grow, most of the enterprise – most of the efficiencies from what happens will be driven towards the big scale players. And you've seen what we've done kind of top down obviously with our $36 billion announcement yesterday on Broadcom and $15 billion for SpaceX and close to – we'll do close to $10 billion in sports, tons of critical infrastructure derisking by going senior on kind of less exposed businesses, massively underweight software, everything comes from the same place which is trying to be super humble about what's going on in the world.

And navigate the balance sheet to protect ourselves if you look at what we're doing on our own balance sheet, really for the last 18 months, de-risking in the context of much more treasuries, much more hard assets, a big push into asset-backed and things that are going to be much more inflation protected in whatever regime that looks like.

Look, we're doing everything from a lens. I grew up as a principal. I grew up as a manager of vehicles and really grew up in Apollo that way. And that's how we think about our own balance sheet too, is principal first. And you really have to have a view like the biggest thing in credit and the biggest thing and just risk markets generally is you can't – you have to avoid the bad neighborhood at all costs. You can't be in the center of the storm. And there's a long history. You've covered financial institutions for a really long time. It's like if you're in the bad neighborhood, there's not much you can do.

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If you're not diversified, there's not much you can do. And so that's been my focus, I think, from a risk management standpoint, but the pace of change is as hard to accept and acknowledge, as any time I've been investing, and I think probably as – I mean, I'd struggle to find something that's moving this quickly and getting taken up as quickly as it is.

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

Q

But at the same time, doesn't that create significant opportunities for significant dispersion among active managers?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Yeah, for sure. I mean, that is going to be – I think you're going to have the haves and have-nots in a big way. I think, obviously for our business, there's huge tailwinds in that. We've got a little bit lucky that we kind of went all in on credit and what's needed more than anything else is credit, right. And so you have super longer, the capital needs. I mean, I kind of feel like I'm in some fake reality movie or something when I go to the Valley now and everybody wants to be our friend. And they didn't have the day for me a couple of years ago.

So, well, we love them. We love them. I don't mean it other way. But, they're figuring out the future, we're just financial providers. But like just you take the two labs, they need $1 trillion in chips. I mean, you see the OpenAI announcement last night with NVIDIA. NVIDIA is trying to I mean, the scale of that Ohio project that got rumored last night is $500 billion. I mean, it's very "Masaess" announcement. But the scale, if you just look at the basic assumptions in the five-year plans of these businesses, $1 trillion is just for chips. Like that's – for us when you look at that gets us excess spread, that gets us additional FRE, and that gets us on the mezz and whole business side, we get potentially like infra like assets like it's – and only a handful of people can show up and whether would be able to execute a $36 billion deal. And I think there's one or two but probably one.

And in this case, it was in partnership with Blackstone. So I don't think there's a lot of people that could do it.

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

Q

With those dollars that you mentioned are just gargantuan. Do you worry that the token costs are going to be just as enormous? Folks are not going to want to spend? And then you think...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

I think token maxxing and token talk is for – it's a lot of BS honestly. Like if you look at per unit of knowledge and cost per unit of knowledge, prices are collapsing. Prices are collapsing per unit of IQ if you did it that way. And so, you have to bifurcate different types of compute into inference compute which is most of us like my IQ is not high enough to be able to use, what and if those two will be powerful enough? We're not smart enough. I mean, there's only a handful of people that are smart enough to use these cutting-edge frontier models that need 180 IQ, 24/7 like the problem to solve for that.

That's where you're seeing the prices go up. Our IQs are so low that we're actually using that IQ to do like check out the recipe for the French toast and we're spending tons of money. And so like, okay, so we have to figure that out clearly so that we can manage.

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

Q

That's the use case.f

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Yeah, exactly. Like it's okay. We can admit that what we use our things for like, glorify it, like 120 IQ is good for me. And maybe 130 is good for my French toast. But so what you're going to see is like a whole new economy around how you direct the ask onto the right chip, like the AMD chip, the NVIDIA chip. All these different chips will be used and optimized for a certain use case to solve the spend problem. And then you're going to have the 180 plus, Citadel, Jane Street, all the high-octane quantum, that's going to be really expensive, but the ROI is going to be massive.

Right now, everyone just use all of it in the same bucket. And so I worry more is just how do we – there's only a handful of credit providers obviously is getting diversified. I think what's the – the problem is ROI is so high and everybody assumes compute will be demand and so everybody is just building and buying and building and buying because if they say they don't need it, they'll sell it to someone else. It's very bull market like that part. And so – and we're in the public markets where rate of change matters a lot.

And so if you have any slowdown, once these companies are public, if there's any slowdown, it was growing at 100% a year and it grows at 80% a year, the market goes – the stock goes down 50%. So you'll have that moment. I don't know when that moment is going to happen, it's going to happen in the next two years at some point where people say, wait a second, the growth isn't as much or the ROI is it as much, or maybe it just benefits the consumer. I don't know where it lands, but everything is very – where it's bull market is where you say like there's 10 guys that are building data centers and that everybody can build a gigawatt data center, it's just not true. You're going to see guys. I think you'll have companies that don't deliver on their promise and they have leases cancelled, and people like, oh, wow, what happened here? And not each developer is good.

Not each Neocloud is great at providing efficiencies of clusters of chips. There's a lot of nuance that's going on. The bull market elements of it is that everybody thinks that everything's just commoditized and it's not. There could be a lot of dispersion amongst it.

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

Q

Let's shift gears and talk about your role as co-President of the Asset Management Business at Apollo. Talk about some of your key priorities right now where you're spending most of your time and what are some of the key challenges that you're tackling?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Yeah. I mean, look, we have two big things at the Asset Manager. Obviously, we have our own balance sheet is half the capital and half the capital is third-party. Most of my time is well, first off, risk management and making sure we don't do anything stupid in a time where I think is uncertainty is higher than usual. So that's been going on for a while, optimizing our own balance sheet and making sure we're in the right neighborhoods, much more infrastructure, much more around everything that's growing really quickly that clearly needs demand, building out Europe, building out ancillary type businesses, building out our CLO replacement strategy.

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And I think, creating new structures that are good for everybody that actually can earn the appropriate rate of return and just trying to avoid making any big mistakes because I think there are elements of the balance sheet for that.

I think on talent management continue to just get the best people in. But like we've kind of set our plan with, our credit business obviously drives it. But between hybrid, our equity franchise which were in market this year, raising which is going to pretty difficult backdrop for PE, our team's done an amazing job there just historically in terms of not getting in these bad neighborhoods and sticking to our knitting. But hybrids are huge grower, I think infra is a huge grower, how we handle sponsor solutions and secondaries, I think could be a big grower.

People think we're really big and really penetrated. I think there's a lot of upside in certain markets that we have not penetrated and some of our competitors have done a much better job. So I think there's upside in there, we just have to continue to just perform well. And I feel pretty good about that.

But I spend most of my time worried as opposed to just making sure we don't, that's kind of been – that's how I grew up here.

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

Q

Which markets stand out, would you say, where competitors have done well and you see significant...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

I mean, look, you can see the numbers. I mean, we've dominated the credit ecosystem in other parts of the ecosystem, we've been underweight. I view anything that we're under market on, I view as a huge opportunity because I feel like the investment regime is changing where we – having this open architecture that we have is going to be a huge competitive moat. And if you look at what's happening with the Mag 7, and to compare the Mag 7, to financial institutions, I know is a hard one. But they're all going balance sheet heavy. And there was like a 20-year or 25-year environment where the public markets and everybody wanted – everybody to be asset-light. It was ARR, asset-light, ROE, everything else.

What if the regime is changing a bit to be more asset-heavy and that the return is going to shift to capital? You're seeing it with the manufacturers, you're seeing it with the intels of the world that actually make their own stuff. You're seeing the large companies all go much more balance sheet-heavy and capital-intensive. And maybe the value framework for financial institutions, something that public markets have not loved about us is our balance sheet heaviness.

Maybe that's going to be our strength in this environment. Maybe that enables us to win deals and be more strategic partners and should we be – really leaning into that more? I think that's – like if I look at other industries, you're seeing value shift to capital, still hasn't happened in asset managers yet. But I'm probably more excited about that than I've been since I've been at Apollo.

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

Q

Let's talk about private credit, which continues to be a topic.

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John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

I try to get through every 30 minutes without talking about private credit, but let's do it.

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

All right.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

Because I get asked about it nine times a day. So I have to like, it's like I can't talk about a much such a boring safe asset class so much, but it's so exciting for everyone.

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

I think that's part of the debate, people don't perceive it to be.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

I just...

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

But that's what I want to get to, is some of these misconceptions here, right? So I think there's been a lot of focus on the direct lending space, which is a smaller part of Apollo's business. But the emerging debates around the risk profile and private investment grade Private IG, which is a bigger part of your business...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

Totally.

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

...to the sponsor. So I guess where do you see the most common misconceptions around Private IG?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

I mean, look, I think the biggest misconception is that we're misaligned in any way and that we're using structure to take a lot more risk. This idea that you could have made that argument maybe when we weren't merged with Athene, and that most of our compensation wasn't in the equity of Apollo, which is subordinate to policyholders. So when we merged those businesses, we effectively said what we're doing in the credit business is good risk and we want to own all of it.

And so this idea that we use structure or private for opacity and lack of transparency is something we just totally disagree with. It is not how we behave or operate. And no matter how much transparency we give to the market,

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they seemingly, I think, private just feels risky to people, you know. And so valuations is obviously a big part of that. And there's an intersection there that's gotten in the news, which we're trying to take a lead in terms of setting the market on that. But look, private credit is – private markets, not private credit. All of private markets are disproportionately exposed to services businesses, asset-light businesses, healthcare and software.

So private markets have some probability of not doing as well or having defaults that are high. Now, the LBO market and the BSL market has a big percentage of software and services and asset-light businesses because levered credit typically went there too. So lots of companies in the public markets are asset-light services company. So I think we're going to go through a cycle potentially. It's not about private credit. Private credit is a de-risking trade.

Private credit is going up in quality, up in seniority, closer to assets typically, and senior. Some less and some are more exposed than others. Some have more concentration than others. They're going to figure it out. But I think the much bigger conversation is around the subordinated parts of the capital structure. And so I think you're starting to see that with some of the other headlines going on and I don't know, cross your fingers. It feels like people are getting bored about private credit, but maybe not.

Most of us, private credit business is a pretty cottage industry. There's not a lot of – there's a handful of us that grew up in the business for over 20 years and all know each other, and it's different than the private equity business and that you're kind of either in a deal with someone else or you're going to be on the other side with someone else. But generally, it's not zero-sum and we're all definitely not used to being in the press as much as it's been so. Hopefully it calms down because the business is supposed to be a pretty boring business. It's supposed to lend money at par, get money back at par, make your coupon and move on with your life and be pretty low vol in terms of what the asset, vol of the asset is and the underlying likelihood of default.

So hopefully, we'll get back there. Look, I think the night – I was going to say nice thing, but redemptions are high right now. There's no way to hide from that. They're all you can see them in the headlines. You can see what's going on with some of the interval funds. You've seen what's going on with all of our vehicles, generally speaking, and the nice thing is, is no matter how much you've attacked the private debt business, there's been no run. There's been no SVB, there's been no financial institution failing. The structure is right, like could it improve 100%? Could we talk about it different way? Sure.

It's kind of nothing. We're giving back – we raised – we have 5% redemption, which is $750 million. We've taken $750 million that quarter. We have $5 billion of liquidity on a vehicle that needs to redeem $750 million and a bunch of broadly syndicated loans. The assets pay income and the income matches the distribution yield. The average life of the asset is 3.5 years. The average liability structure is 3.5 years, fully matched. For credit, it's a really actually appropriate structure. So I don't fully get it. But we'll keep talking about it I guess.

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

Q

All right. The other hot topic is software. And Apollo was early to identify potential AI disruption risks in software. And you entered this period with amongst the lowest exposure to software relative to peers in this space. So maybe just share your latest views on software. Is it too early to step in here? Are you seeing some interesting opportunities emerge?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

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I bet every software sponsor come in pretty much send me hate mail at this point. So I have tried to go on my apology tour.

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

Q

You can buy what's in the portfolio companies and...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

No, it's not software – I think a lot of comments that we make sometimes get taken out of context. Software by all of us will be used, I don't know, 1,000x in the next 10 years. Like it's not about whether or not software is going to be used or not. It's the price we pay. And if you're a new business, are you going to build something from scratch or are you going to go pay someone to do it? If you feel like you could probably build it? 90%, 95% close to what an off-the-shelf solution does it 90% cheaper. What are you going to do? And that's the debate.

And we spent eight years. The average multiple software business went from 10 times to 31 times. The average ARR went from 2 times to 3 times to 15 times. You're paying 15 times revenues for business. You guys are all in the markets. You know, you're assuming that like the assumption embedded in there was 100%, 99% retention rate, 90% plus margins and significant growth until the end of time. That's how you grew into the valuation because you viewed it as a utility. And now that paradigm has shifted. And so the question is price, earnings power, margin, all those things where you have a lot more competition in a much different framework. And so, I think it's much more about what's the appropriate price for these businesses, analytical software you're going to use an LLM to do. Analytical software, the LLMs are really good at analyzing big swaths of data.

Critical infrastructure software where like the state of record and very important data that you're going to use to build on other software probably goes up the data bricks of the world. And there's some massive winners in the software space. I'm just not sure it's the vertical software company that does analytics or does surveys.

It's just not – those companies are not going to do as well. I don't think what I'm saying is controversial, but apparently some people do. I think it's kind of just what's happening. And it's just going to flow through the market over time. The public markets moved first, then they moved to the BDCs that have a lot of exposure. The BDCs are the least of anybody's concerns given you had 15 companies go from $500 billion to $1 trillion in 60 days this year and the total size of the entirety of the BDC market is sub $500 billion. So in the context of a $80 trillion equity market and a $230 trillion net worth market for US households, the $400 billion BDC market, which has 30% exposure to software, is really the least of anybody's concerns.

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

Q

Shifting gears to origination. It's been a core differentiator for Apollo. Can you talk about how your approach to origination is evolving in the current environment where you find some of the most interesting opportunities?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Yeah, I mean, listen, we've never been in the origination business as a calling effort business. We've been in the ideas business where we cover sectors. We have no walls between our equity and debt business. We assess what we think the appropriate solution is for the company. We go in with product agnostic. So we'll have 20 products off-the-shelf, whether it's an investment-grade revolver, investment grade term loan, high yield pref, take

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private hybrid, you name it, infrastructure, off-balance sheet lease. We probably have the most broad, creative front end that actually is proprietary and can commit to risk where we actually have a view.

We've gone from originating $50 million to $75 billion of what we call excess spread assets. We'll originate somewhere between $300 billion and $400 billion this year. We've grown from $50 billion to $100 billion to $200 billion to $300 billion to $400 billion without losing spread, despite spread's going tighter, which if you asked me five years ago, would you be able to do that? I would have said, no. And we just keep going after new asset classes and creating new asset classes that have really consistent cash flows. I'd say the benefit of the AI boom is all of this, you can create lots of investment grade collateral at excess spread because of the supply-demand dynamic going on.

There's a lot of demand for capital. And we're going to raise more investment-grade debt in the syndicated market than the actual government market, which has never happened. So there's just so much new supply which is keeping spreads wide, which is great for our spread business sort of thing.

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

Q

And high-grade capital solutions appears to be the fastest growing for those platforms.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Yeah, that's in there. Obviously there's been 125 high-grade deals, we've done over 100 of them. We've been a disproportionate market share there. It's getting a little bit more competitive, but still it need to be really big size, really creative, permanent, our funding structure and our front-end are competitive moats on that business. A lot of people want to get in that business. It's a really hard business.

We have hundreds of people that are dedicated to that because – if we had just a third-party business, we would have never gotten in that business. We would have just kind of been a traditional credit manager. But because we get hundreds of dollars on excess spread, we really invested in that business over the last 10 years to build it out and have a really commercial and creative front end, that's totally tied to our total asset manager and that's created products on the back of that, not the other way around. A lot of people go into businesses and say, we're going to create a product because a client wants it. We're usually the first client.

So it's a very different mindset. And when we bring people, we've hired a lot of people over the last couple of years. When we hire people, they're shocked as to how that mindset is totally different from how we think about product and risk taking. It's much more principal heavy all the time, not the other way around.

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

Q

How big could that business get? And what do you see as any sort of key getting at that business?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

I mean, you're seeing a lot of new sectors, healthcare is getting into it. Europe is a huge opportunity. Asia has not yet done that market because of the banking is I think over time, a huge market. We'll spend a $1.1 trillion this year in infra in US. Asia and Europe combined are $300 billion. They need to do trillions of spend that they're

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backlogged on in terms of infra spend. So I don't know, I think if we keep that share, it's super accretive to all parts of our business, both third-party and the balance sheet.

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

Q

And another – you mentioned innovation, another area where we're seeing some innovation is daily pricing, where you guys are pushing ahead, trailblazers here across the industry and privates, pushing for that greater liquidity, greater transparency in private credit. So what are you ultimately trying to accomplish with your efforts there?

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

No, this is just acknowledgment that – some of us decided to go from drawdown funds into evergreen funds, where money could come in and out. And listen, if money comes into a product and is in and locked up with all the investors and then comes out at the end of life, the marketing methodology is not impacting, is not unfair to any one client. Once we decided to allow money to come in and out, you have to make sure that everything is transparent and has some level of – there's some element that we're acknowledging that some of the assets have some level of volatility.

And so this is just about expanding the marketplace. Marc talks a lot about all of our new clients in the form of individuals in 401(k). Those clients are used to much more public markets dynamic in terms of NAV and require more daily pricing. And the product design that is required to service those clients is much more of a daily pricing construct.

And so this is – at the end of the day is about trust and transparency. And we tried to lead with that out of Athene with our multiple 200-page deck that we put out. If I make you read.

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

Q

My favorite weekend reading.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

There you go, there you go. But like, we're trying to just from a very good place be as transparent as possible, I know that sometimes, for whatever reason, people find that hard to believe. But we're just trying to be a market leader in terms of transparency. And we ultimately think that will lead to much more trust over time. And it enables us to actually build our business at the scale that we want it to be.

Look, if we wanted to – it was a lot easier to just be super narrow and service a much smaller corner office and alternatives. And we have obviously more ambition for that.

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

Q

And if you're ultimately successful in bringing more liquidity, transparency here to the private credit markets with daily pricing, I guess what are the implications for excess spread? Is that ultimately compressed? And how do you think about the implications for the value proposition and private credit and the premium there?

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John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

Listen, again, I grew up in the public markets and then I've been here for 15 years. So I view the value prop of a credit manager to always – has always been to be the credit underwriting, the credit picking and avoiding defaults. That's kind of like step one.

Step two is the relationship with the issuer. And if you're actually originating your own product, a lot of the excess spread is from that origination spread, not from illiquidity spread. People can call it illiquidity spread if they want, but there's different components of excess spread. There's illiquidity spread, and then there's origination spread.

If you have your own origination, our view has been always that your excess return will over time as assets get more liquid, and again, every asset has gotten more liquid over time, and this is just part of the evolution of markets, that the originator will retain most of the excess spread, which means our client and our balance sheet will retain most of that excess spread. And it won't be about liquidity or illiquidity excess premium.

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

And how much should that excess spread be over time? Like what do you think is ultimately...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

Again all of that...

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

Sustainable.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

I don't know if like historically, it was $150 billion to $200 billion, it will go down, but I don't know by how much. Maybe it goes to $100 billion to $150 billion. But again, if people trust us more because our funding spread go down. So it's not as easy as – it's not as simple as saying, okay, if spreads go down, that disproportionately will happen. I think if we are a market leader in transparency and we are a market leader in trust, that our overall cost of capital should go down over time, too.

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

And then how do you think about the components of that excess spread over time today versus like 5 years, 10 years from now? Does that mix change? It sounds like it does because you're thinking maybe...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.
A

I think it's going disproportionately from historically what people deemed to be, I guess, a little bit of a fallacy to say that it was all in illiquidity spread. But let's just say it was, it will go to predominantly origination spreads. So you're going to have to control origination to actually maintain any sort of excess spread.

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

Q

Okay. We're almost up on time. But wanted to talk about the institutional part of the business. Institutional fundraising has remained resilient, perhaps more resilient than people had feared. Just a couple months ago. So talk about what you're seeing that's driving the strength today. How durable is that? And where are you seeing some of the strongest demand across client type geographies...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

A

Our shareholders have loved what's happening in the wealth channel up until whatever let's say over the last six months. And that, by the way, I think is going to prove to be more resilient than people think over time. The overwhelming macro on that business is people are still massively under-invested in alternatives. And over time, it's hard to debate that the more people won't be in privates. But we're going through our little test here in private credit. Institutions thought they were getting crowded out, right by well. So they didn't like that. They kind of are secretly rooting for more dispersion in wealth channel because they think it makes them the star of the show again. But they want to take risk, right? So like the amount of conversations I'm having on the institutional channel on direct lending, they're just waiting for spreads to go wider.

They want more of it. They're still underweight, and many of the large institutions are still not at their target bogey for anything in private debt or credit or hybrid. They're just not there. So I think when they see the headlines, they are like, great, this is going to create a bunch of excess spread for us to put some money to work, and they actually want to get out and they're more underweight the equity side of their business and they're a bit low on DPI and everything else.

So they've been – every money – every distribution they get from their equity business, they're plowing back into either infra, hybrid or credit. So I think, we'll launch our third direct lending fund soon. I'm more excited about that part of the business just because I feel like the headlines actually inspire the institutions to go in, and they tend to be more countercyclical.

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

Q

So you're seeing more of a...

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

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I think more demand, which is not consistent with the headlines what you would think. But the institutions will take the other side of that, right.

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

I'm afraid we'll have to leave it there. John, thank you so much. Looking great.

John Zito
Co-President - Apollo Asset Management, Apollo Global Management, Inc.

Appreciate it.

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

Appreciate it. Thank you.

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