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# Apollo Global Management, Inc. (APO)

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## CORPORATE PARTICIPANTS

### Marc Jeffrey Rowan

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

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## MANAGEMENT DISCUSSION SECTION

### Unverified Participant

Great. Well, good morning, everybody. Thank you for joining the second day of Goldman Sachs Financial Conference. It is my pleasure to welcome Marc Rowan, CEO of Apollo Global Management. Apollo is a leading alternative asset manager and retirement services provider with over \$630 billion of assets under management. The firm had a very successful 2023, on track to deliver over 25% fee-related earnings growth, and over 30% spread-related earnings growth as well, with a very robust momentum entering 2024. It's one of the largest providers of private credit in the world, unique origination capabilities, and access to permanent capital. Apollo sits at an intersection of many secular themes that are fueling growth in private credit that we obviously spend quite a bit of time talking about over the course of the year. So, Marc, thank you so much for being here. Great to kick this off with you.

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### Marc Jeffrey Rowan

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

Total pleasure and the best news I've heard is you're talking about 2023 in the past tense because we're all ready.

## QUESTION AND ANSWER SECTION

Q

Yeah. I think we're ready. So, speaking of 2023, when we go back to where you and I were sitting here last year, you talked about 2023 for Apollo really centered around execution. And the mantra that you also used is no new toys. As you look out, back to 2023, you've executed obviously quite well on the strategies and you had some self-constrained and restrained with the new toys point. Only one new toy, although a pretty big one, being Atlas. So, as you...

**Marc Jeffrey Rowan**

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

Technically a 2022 toy.

A

Q

There you go. So, as you look out to 2024, what are the key priorities and what are sort of the reflections on 2023?

**Marc Jeffrey Rowan**

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

Look, I'll make the same point. I think there is more upside in executing well what we already have than in buying anything new or going into some new initiative. We're starting to lap our first five-year plan. So, just like we're now talking about 2023 in hindsight, we're beginning to talk about our five-year plan in hindsight. And we've committed to do a five-year plan in October of 2024 and launch it with the new Investor Day. But it's forced us to really gather our thoughts. So, where's the puck going? The puck is going to guaranteed lifetime income. The puck is going to fixed income replacement. The puck is going to retail high net worth. And the puck is going to a place we really haven't talked about before, which is how will the world of asset management look different going forward? What will win? What will lose? And none of us really cover what I'll call the mass affluent market well. Will the mass affluent be a buyer of alternatives or will they be a buyer of some blended alternative that represents a risk-reward product that we have not yet seen, but I think we're going to see in 2024.

A

So, I look through those initiatives and the markets are so big, I'll give you one, which is interesting just to touch on. The entire industry has been built out of the 20% alternative bucket of our institutional clients. We say we cover CalPERS and CalSTRS and GIC, but we cover the alternative managers. I would bet and you can do this today because you have lots of alt managers coming through, ask them who their head of fixed income is, is it random firm, they won't know. By the way, I don't know. That's to me our opportunity. To date, we have had traditional asset management. When pension funds are institutional clients, 50% allocated to public equity, all publicly traded; 30% allocated to publicly traded fixed income, 20% allocated to alts and everything else. We live out of the 20% bucket. I think for the first time, we have the opportunity to sell fixed income to the fixed income buyer at the same rating point, picking up 200 basis points. And I think it's a huge market. It's in our sweet spot. And again, I weigh all of the internal opportunity against the next toy. I think 2024, unfortunately, for those who are interested in new toys, is going to be a little short.



All right. Well, let's talk about the existing toys. Obviously, private credit, fixed income replacement, as you spoke about in the past, being a big theme for really all of this year, it's been a theme for a couple of years, but I think it got really amplified by what's been happening in the banks today. Started really with the global financial crisis years ago, but maybe amplified by what happened with regional banks earlier this year. So, talk to us a little bit about what innings we're in with respect to private credit allocations, particularly from large institutions, how do you see the de-banking trend playing out and the role you see Apollo playing in this ecosystem?

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**Marc Jeffrey Rowan**

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



Look, so we had – as you know, I started thinking of this from 2008 forward. 2008 forward, we, as a financial system, Europe as a financial system, most of developed Asia decided that having our country's economy behold into a small number of institutions was not tremendously wise. And so, we passed Dodd-Frank here in the US, Basel frameworks in Europe and elsewhere. And what we've seen is these worked. Banks in the US as a percent of total lending to consumers and businesses today are 20%. Investors are 80%. And by the way, there are our only two choices. A regulator or I should say, an economy needs credit generally in proportion to GDP. Regulators make a choice. How much credit do we want from the government-backed government guaranteed banking system and how much capital or credit do we want from the [ph] investor (00:05:50) marketplace? There's no third choice.

In the US, they've made a choice. In Europe, they've made a choice. In developed Asia, they've made a choice. And then, we had a series of events which happened at the beginning of the year which were unexpected, SVB, First Republic, Credit Suisse. And regulators kind of doubled down on the choice. So, I freely say and I've said this publicly, I think the US banking system is incredibly safe. I don't think the US banking system actually needs more capital to be safe.

Having said that, regulators have made the choice that they want more capital in the system. When they asked the banking system to put up 15% or 20% more capital, they're telling the banking system to shrink. When Europe tells its banks to go from Basel III to Basel IV, they're telling their banks to shrink. And we're seeing this everywhere in the world. So, de-banking is at the early stages, it is gathering speed, and it is happening everywhere in the world at different rates of rapidity based on the development of capital markets elsewhere in the world. The problem we have for us is we have a poor choice of language. We think of private credit as levered lending. I think levered lending is in its late innings. I think private credit in vintage 2022, awesome; vintage 2023, really good; 2024, I don't know. We may actually see the market reach some sort of capacity. It may be that the provision of credit on a risky basis to borrowers may become more competitive. Banks may re-enter. A capital formation may have taken place. All of it interesting, but not that relevant.

For us, remember our industry, our industry started all as private equity and almost everyone in the industry built up from private equity, and the next stop on that ladder was levered lending. We started the other way, almost by accident as a result of Athene. We needed private investment grade every day. So, we started at AA and we worked our way down. And so, I look at the market and this is some of the stats we've put out. I think levered lending as traditionally defined private credit is a \$1.5 trillion market.



Right.

**Marc Jeffrey Rowan**

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

A

I think the total addressable market, \$40 trillion. Most of the market is not levered lending. And what we've tried to do is to participate in levered lending in a big way when we like the fundamentals of levered lending. But the business we've built is primarily an IG Private Credit business. And no one has seen it before, which is what's both interesting and exciting about the business. We're building something that has not heretofore existed outside of the banking system.

Q

Yeah. Let's talk about that a little bit more. So, Apollo's origination platforms really make you quite unique and you talked about the capabilities that brings you on the private investment grade side of things. We continue to hear more about alternative asset managers potentially partnering with banks as well as you again kind of go through these de-banking theme. What opportunities do you see for Apollo to do something like that? What does that structure look like? How important is it to actually partner with banks? [indiscernible] (00:09:04)

**Marc Jeffrey Rowan**

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

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So, I think you need kind of a broader context. So, we originate credit three different ways. We originate credit through our platforms. We originate credit through a direct calling effort on investment grade borrowers, Air France, Vonovia, AT&T, AB InBev, and the like. And we originate credit through partnerships with banks which already exist. These are robust, already existing partnerships. And again, a partnership that is focused on levered lending, I think that's great as long as you like the underlying asset class. The vast majority of capital that has been raised for private credit has come out of the alternative bucket of these institutional investors. People in the alternative bucket want alternative rates of return. That's where partnerships so far have solidified. We have our own partnerships in levered lending with one of the top four banks.

Having said that, the opportunity to de-bank to take assets off the balance sheet of banks at the investment grade end of the spectrum is literally in its infancy, and I think we're going to see more and more of it.

And to give you a sense of what's required here, private credit, in traditional definitions, levered lending, a group of 5 or 10 of us in this room could raise a fund and start a private credit business tomorrow. And if the market were good, we would have good returns; and if the market were bad, we would not have good returns. Now, I think there's more to it than that. There's an infrastructure, there's a way of selecting credit, but leave that aside. You look at Apollo today, there are 2,500 people who work in our asset management business, there are 2,000 people who work in our retirement services business, and there are 4,000 other people who work at Apollo who do not carry an Apollo business card...

Q

Right.

**Marc Jeffrey Rowan**

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

A

...who work in 16 platforms. So, we've spent somewhere between \$6 billion and \$8 billion, hired 4,000 people, built 16 platforms, because we need private IG every single day, all the time. Initially, we did it for ourselves and then, we started doing it for other insurance companies. And then, we started doing it for credit funds that institutions participated in and individuals participated in. And I believe we will actually succeed in going to institutional clients who currently have a portfolio that is 100% IG, all public, all beta, and we will convince them not to think about the world as public and private, but to think about the world as alpha and beta, and more and less liquid, rather than safe and risky. Because I think that's the – the biggest paradigm shift taking place today is we've grown up in a market where we thought private was risky because private was venture capital, hedge funds, and private equity...

Q

Yeah.

**Marc Jeffrey Rowan**

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

...the high [ph] obtain (00:12:00) stuff, and those things are risky. We should say that proudly that we're offering excess rates of return and it comes with risk, okay, and public was safe. But you look at the market today and 80% of the market is trading as S&P 500, 60% of the market is ETF, so 100% of people's returns have been provided by 10 stocks. Those 10 stocks traded a [ph] 50 P/E (00:12:22). How many of us come in every day and basically source [ph] 50 P/E (00:12:27) stocks? None. But we have half of our retirement assets of our entire country essentially levered to 10 stocks.

A

Yeah.

**Marc Jeffrey Rowan**

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

And we think private is risky and public is safe.

Q

A

Right.

**Marc Jeffrey Rowan**

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

And I think that we're going through a rethink of alpha and beta. I think public markets, certainly the fixed income market is 100% beta. I think in the equity market, it is not quite there, but it's really difficult for active management to provide excess return per unit of risk alpha. And I think investors are going to start buying beta really cheaply, which they've done for a long time through index form and increasingly do it. And if they want alpha, they're going to have to be less liquid.

Q

A

Q

Yeah.

**Marc Jeffrey Rowan**

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

A

...that, I think, is a good trend for private assets. It's a good trend for us. We've picked a spot in the market where we play.

Q

Yeah. Let's talk about regulation for a couple of minutes. Obviously, with increasing amount of lending moving away from the banks, what do you expect the regulatory response to be? And I guess, how do you respond as a firm to [indiscernible] (00:13:31)...

**Marc Jeffrey Rowan**

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

A

Welcoming and insightful.

Q

Yeah.

**Marc Jeffrey Rowan**

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

A

No, I said, it's funny because I was at a panel in Hong Kong and, I was mentioning this too before and we never [ph] all get to listen to (00:13:40) each other speak. We rush off to our other meetings that we're doing. But we had five of the six big banks CEOs, myself and Ken Griffin and [indiscernible] (00:13:50), we were all like in the same room having the same conversation. So, the Chairman of UBS was asked at the tail end of his presentation, what is the single biggest risk to financial markets? And Colm said, a blow-up in the shadow banking industry. And with that, he got off the stage.

And I went on and someone said, Marc, what do you think of what Colm just said. And I said, well, let's just go through the facts. Everything that is on a bank balance sheet is private credit. Let's start with that.

Q

Yeah.

**Marc Jeffrey Rowan**

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

A

Every dollar, every euro that moves off of a regulated bank balance sheet de-risks the system. And the room was like gasping. And I said, well, isn't it, everything on a bank balance sheet is levered 10 to 12 times. When you move it to a mutual fund, it gets zero leverage. When you move it to an institutional client, it gets zero leverage. When you move it to a BDC, it gets 1.5 times leverage. And so on and so on and so on. So, every time you move something out of a banking system, you de-lever the system.

Okay. And then I said, now, let's talk about transparency. And I put up the disclosure of the big banks, which basically have consumer loans \$3 trillion, commercial loans \$4 trillion. That's the disclosure. I put up our disclosure. You can pull up our portfolio, every security, every quarter. You can pull up a mutual fund, every security, every quarter. And so now, we're both non-systemic and more transparent. Okay, is there a social good? Well, I don't think we're challenging the banks for the fundamentals of what the banks want. As I've said, previously, we're not after the bank's client. We have no infrastructure to serve a bank's client. We don't offer advice, we don't offer M&A, we don't offer equity offerings, we don't do payments, we don't do derivatives, we don't do hedging, we don't do credit cards, we don't do anything. All we want is the asset. And for the bank, they have figured out that we are a benign competitor where they can keep the high ROE business and get rid of the ROA business. For us, we get free origination by partnering with the banking system in a risk bucket that we like.

Q

Right.

**Marc Jeffrey Rowan**

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

A

So, the social good or the business good is still there. And then, I come back to, if you don't like levered lending, you can [ph] out laud (00:16:16). But if you permit the activity to take place in your financial system, do you want it taking place in the government-guaranteed, [ph] short-lived – shortly (00:16:26) funded banking system, or do you want it to be funded in the investor marketplace? I think the answer was obvious.

And the final point, someone said, well, isn't underwriting less stable, isn't underwriting worse credit standards? And I said, look, I can't speak for everyone. In our balance sheet, we are 90-plus-percent investment grade. The best bank that I've seen is in the 60s. Look at our default rate over the past 10 years, look at the bank default rate. And if I think about where defaults have happened in our portfolio, the vast majority of loss over the past 14 years has incurred in the IG bond market where things were waved in based on rating and almost nothing has happened where we actually focused and structured and properly [ph] diligenced (00:17:0) so, I think that there is a sentiment in the US, as our regulatory regimes are controlled by the progressive end of the Democratic Party, where there's a hostility to all forms of private capital. But the reality is, I think there's very little there.

Q

[ph] What do (00:17:29) you see that process kind of evolve into? So, like are we sort of in education process right now with the regulators...

**Marc Jeffrey Rowan**

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

A

... completely.

Q

The intangible, kind of coming down the pipe or it just feels like a very long journey?

**Marc Jeffrey Rowan**

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

I think, it's going to be a long journey. I think it is entirely political and I think it's incumbent on us as an industry to educate. We are, the limiter right now in our business and it's not just regulatory, but it is also client adoption is actually education. We're in such a different place in a world. I mean, think of what the career that you and I've had. We've been lucky, 40 years – January will be 40 years for me and I basically have lived through 40 years of tailwinds, rates going high to low, printing a ton of money, borrowing forward from future demand and globalization, it does not surprise me [ph] that over (00:18:19) 40 years, risk assets, equities, growth and real estate have done really well.

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Q

Yeah.

**Marc Jeffrey Rowan**

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

Are any of those four things true today? I don't think so. We can argue if they're headwinds or they're just not tailwinds anymore. But investors are not going to be able to look back at the last 10 years and draw any conclusions. We all get comfort as individuals with mean reversion, I think we have to throw away the last 5 and 10 years of track record because I don't think we're going to print \$8 trillion and have everything go [ph] up until the right (00:18:50)

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Right.

**Marc Jeffrey Rowan**

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

And that's going to put us [ph] on an uncomfortable (00:18:55) world of actually having to think about how the world works with a 5% base rate. How the world works without tailwinds and I think we're well-positioned for it.

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Q

Yeah. Right, let's bring the conversation a little closer to Apollo and spend a couple of minutes on institutional fund raising and we'll get to wealth in a couple of minutes after that. But clearly, Athene has been a really powerful engine for you guys to raise capital and partially fuel the origination capabilities as well, that has changed a bit, where the origination platforms are now sitting in a third-party vehicle [ph] you're raising (00:19:28) third-party capital behind that and you're originating more and more. So, as you think about the demand side of the equation, because you have the supply and I think you articulated why there will be more supply. But do you think about institutional demand side of fixed income replacement, third-party insurance companies coming to you guys, what does that look like over the next couple of years?

**Marc Jeffrey Rowan**

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

A

Look, I think it grows faster than our capability to develop. I continue to believe, [ph] in a world (00:19:52) that we're going to be asset constrained and not fundraising constrained. We've gotten north of \$100 billion of originations. Our five-year plan is to get to \$150 billion of originations, it's one of the three areas. The other two, we're well ahead of where we need to be. This one, we have work to do, to get the next \$50 billion. And I think that gets us to a nice, comfortable state. Look, in a world of higher base rates, individuals prefer more to less, it's not any more complicated than that, we'll do north of \$60 billion of organic volume at Athene this year.

In every single product we'll probably produce a record. And the company has said that they expect to do more next year, notwithstanding rate volatility, just on maturation of distribution channels. We continue to see the retirement business as a fundamentally interesting business. I think, it's going to evolve, it's already evolving. We have [ph] \$5 billion year (00:20:53) flows coming out of Japan. I think it'll be \$10 billion. I think the world [ph] is short guaranteed (00:21:01) lifetime income. And I don't just mean here in the US, I mean it's everywhere.

And the product evolution in retirement we don't really talk about because it's not what asset managers talk about, but there's going to be product evolution in retirement services as well. And I like that because the industry is not a great industry from a competitive point of view, meaning it's not ultra-competitive, there's not a lot of capital raised in the business.

The big players are essentially in stasis. I like our odds. We've gone from nothing, literally nothing, to the largest organic originator, by far, producing higher volumes than anyone has ever produced, at the widest spreads with the least credit risk, it's going to be hard to repeat 2023 and I don't think we're going to repeat 2023. I think 30% is not what you and others should bake in...

[indiscernible] (00:21:58)

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**Marc Jeffrey Rowan**

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

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... so I think divide it by two. And then take a little off is probably the normal run rate for that business. And then, I think we're limited by education. The opportunity to serve the 30% fixed income bucket, I think is the single biggest opportunity in front of us. But it will require massive investment in sales force, massive investment in personnel, and we intend to fund those investments in the context of being more efficient and promising margin improvement. But this is the big bet we're making and it is not about private credit and levered lending. There is no home in the fixed income bucket of institutions for the traditional levered lending product. This is an IG to IG, it's asking an institution to take, single A private risk versus single A public risk and take up 200 basis points, it is not 10.5% on levered lending.

Q

Right.

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**Marc Jeffrey Rowan**

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

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That's not the bucket.

Q

Right. So, let's talk about the wealth management channel. You made significant amount investments there, you made a lot of progress, you have two fairly sizable and fast growing products up and running now ADS and obviously AAA. Talk to us a little bit about where they are in scaling, where they are in distribution and what your expectations for those are for 2024.

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**Marc Jeffrey Rowan**

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

A

So, both are still growing and scaling in distribution, but they're growing and scaling nicely, and they're doing pretty much exactly what we want them to do, which is we do not want spikes in fundraising. Getting all your money in one vintage, I think all of us now understand and we should have understood previously is a terrible idea because you can be the best investor in the world. But if rates move [ph] or the style (00:23:44) moves, everything is [ph] worth less (00:23:46) And then you're marking down your portfolio, which is brand damaging.

And if you don't market down fully, you end up with a long queue of people looking to exit, it's no more complicated than that. We are positioned slightly differently than everyone else in the wealth channel, in that, we are aligned with the client. We are the largest investor in almost every product. So, like in AAA, we're 70% or 75% of all the money, we're the ones who suffer if we take in too much money.

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Q

Right.

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**Marc Jeffrey Rowan**

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

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Clients like that. So, what we want is a steady cadence of monthly build. If you come to us at AAA and you offer us \$50 million, we force you into a five-year share class. We will not take your money. We are not your ATM. And does that mean we're going to grow a little slower? Yeah, I'm okay with that.

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Q

Right.

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**Marc Jeffrey Rowan**

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

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But we're just like slowly moving forward. And there are now more than 150 people in the channel. I think we forecast, I'm just looking at the guys with north of \$8 billion this year and I expect there to be very significant growth in that channel. But I still think we're talking about the infancy of this business. When we say, we were in the UBS channel, we're talking to the top 5% of [ph] power producers (00:25:03) at UBS. We are not yet, as an industry, serving the wealth channel.

And one of the questions is, are we ever going to serve the whole business? So, I have maybe a little different take on the business. I think family office is clearly an alternative buyer. I think ultra-high-net-worth is clearly an alternative buyer. Mass affluent has been buyers of some alternative products. But where will the vast majority of clients ultimately get alpha. If they – are they going to come to pure alternatives or are they going to buy something from Apollo, Blackstone, KKR, Blue Owl, Ares, whoever else is showing up today or are they going to

go to a trusted source? I think both. And so, I think what you're going to see, my forecast at least is, I think passive. The big four players in passive are going to get bigger.

Q

Yeah.

**Marc Jeffrey Rowan**

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

A

I think the boutiques of which we are one, we're going to get bigger because we're providing alpha in private markets. I think what gets squeezed is active management because active management as an industry has failed to beat the index 85% of the time for 20 years. And I think it's getting harder and harder as the market goes passive. And I think you're going to see active managers reinvent their businesses to take advantage of their brands and distribution. Some of them are trying to buy alternative private managers.

Q

Right.

**Marc Jeffrey Rowan**

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

A

I think that ends badly. But some will succeed. I think more likely is you're going to see lots of product partnerships where we offer clients the best of public and private. Imagine an all-access product, where you can buy public and private markets and equity, you can buy public and private markets and fixed income, you can buy public and private markets at investment grade, maybe even an ETF, which is a daily create-and-redeem product, which sounds like an oxymoron for a private market. I assure you it's not, I think you're going to see us, you're going to see others make the first stabs at this market. And so, when I think about the future of our business, it's clear to me, individuals are underexposed to private markets.

Q

Right.

**Marc Jeffrey Rowan**

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

A

It is clear to me that the fixed income bucket of our institutional clients is underexposed to private markets. I think we have as an industry, a really good chance to play for a piece of active management.

Q

Yeah.

**Marc Jeffrey Rowan**

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

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I think all three markets are so big relative to our industry. We just have to be careful to be builders of businesses [ph] that are excess (00:27:42) return per unit of risk where we have cultures that survive and not be greedy. I think there's plenty for us to do.

Q

Yeah. Let's spend a couple of minutes on the retirement channel. Athene gross sales continue to run at a record level. You mentioned that earlier, I think you guys have a target for \$70 billion of gross sales or more into 2024. Maybe spend a minute on what channels you expect to be more active in 2024 or maybe as active as they were in 2023. And also, you've stayed away from a handful of larger deals that we've seen in the US over the last couple of years [ph] what held you back (00:28:19)

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

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So, we're in. Like – we think of our business [ph] of excess (00:28:23) return per unit of risk, we have to earn a spread and one of the interesting things about our business is we run a capital efficient retirement services business because two-thirds of all the capital is provided by investors. And investors trust that we will, as aligned with them, continue to get high rates of return.

Excess cost, excess spread in the retirement industry comes from three sources. It comes from having an asset management cap platform that produces excess spread. We're the only ones who have it in size, KKR has done a really good job they're probably next. After that, there's no third, to be candid [ph] next place it (00:29:02) comes is from efficiency and OpEx by having a scale business. We are the only ones who are at size and a scale business. We do one product, spread business. And the third place it comes from is by having an attractive cost of funds.

So, when you are in the retail market today or you're in the [ph] pension buyout market (00:29:24) any market and you do a new transaction, you are getting new market value adjustments, new surrender charges, you're locking in your cost of funds for a really long period of time. That should be the most attractive liability. I should pay the most for that because it is the most protected. When you do an acquisition today, you are buying an older block of business with degraded surrender charges, with degraded market value adjustments. And because it was generally issued in a period of time where interest rates, contractual interest rates are below market interest rates, you are at risk, you should want to pay less for that block, that's not how the world works right now.

Right now, you have people paying up to try and build a position in the industry to appeal to investors to try to get to critical mass. And the cost of funds associated with almost every acquisition we've seen is significantly in excess of that which we can do at retail, we're in the spread business, we're not just in the asset accumulation business. I think this ends badly.

And then, I come back to capital. Capital, we're north of \$24 billion, \$25 billion of capital. We'll raise a new ADIP north of \$4 billion, maybe north of \$5 billion of capital. If you are starting in the business today and you don't have asset scale and you don't have operating scale and you don't have good cost of funds, how do you make money? Well, you can do regulatory arbitrage, you got a Bermuda and Bermuda used to be a place where you could have reserving that was significantly less than the US, so you could freely create capital.

The Europeans and others have now put pressure on Bermuda to basically get to US and European standard. The days of Bermuda arbitrage are over for the mass [ph] mutuals, for the Athenes' (00:31:15) we've never used

arbitrage in Bermuda. Because we're so big there, [indiscernible] (00:31:21) important. And so, I think you're going to see a bunch of the new entrants, who put business on the books expecting to have Bermuda arbitrage just watch all source of excess return disappear.

And I think, if you see someone move to Cayman, you should just assume they're moving to protect regulatory arbitrage. They're not moving for the weather. And no matter what they're telling you, this is a last ditch effort to try and save a franchise that is not going to stand up to scaling under US regulatory scrutiny. The US regulatory system watching so much new money come in, is fine with new entrants, but they want new entrants to play by the rules. They don't want new entrants to be able to skirt the capital regime. And Bermuda is the first place the industry took a stand and actually got [indiscernible] (00:32:14) there's no arbitrage in Bermuda. Now, they're moving to Cayman. I think Cayman will be next and if Cayman resists, it will be a regime that does not easily reciprocate with the US.

Q

Right. We have a couple of minutes left, so if there's any questions in the room, just raise your hand and we'll have a mic come around. Maybe one more for me then. So, you mentioned capital and the way we view Apollo is increasingly much of your growth is coming from capital-light sources. If I think about things that you're doing with AAA, things you're doing with ADIP, theoretically, that should free up significant amount of capital for you guys to do other things with. So, how do you think about return of capital to shareholders over the next couple of years? The stock is obviously not particularly expensive. How big of a role does that play in your forward capital framework?

**Marc Jeffrey Rowan**

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

A

So, we have – The answer to that is, at the moment, the highest and best use of capital. And we have a choice every year between dividend and buyback. We've been increasing the dividend regularly, generally, at some percentage of the growth in FRE. I assume we'll take another look at that at the appropriate period of time. We are in our last year of the transaction payments, the governance payments from the transition from a private entity partnership to a public entity. Those payments are significant each year. I think you should think of those payments as being almost directly translatable to increased buybacks. I continue to believe being a regular buyer of our stock, given the capital light nature of our business and the fact that we have lots of capital boxes around the platform.

Q

Yeah.

**Marc Jeffrey Rowan**

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

A

So long as we trade at values in which we can create FRE and SRE at very low multiples, we should be big buyers of our stock. We have to have the money [ph] to, should I do it (00:34:15) but we'll get there.

**Unverified Participant**

Great. Okay. On that note, we'll leave it there. Marc, thank you very much.

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## Marc Jeffrey Rowan

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

Thanks.

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