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Apollo Global Management, Inc. (APO)

Bank of America Financials CEO Conference

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Marc Jeffrey Rowan
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Craig Siegenthaler
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MANAGEMENT DISCUSSION SECTION

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

So, Craig, what do you want to talk about?

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Everything, but I think we see a few getting seated so we can start in a little less than a minute. There are a few seats here in the front row and in row four, too.

With that, I think we can get started. Good morning, everyone. Thank you for joining us and welcome to BofA's 31st Annual European Financial Services Conference. This is Craig Siegenthaler. I run the North American Diversified Financials vertical, and I'm very pleased to introduce Marc Rowan, Chairman, CEO and Co-Founder of Apollo Global Management. Marc co-founded the firm in 1990 and he served as CEO since 2021. He's also a thought leader across financial services and a pioneer of the all-insurance model, which is largest competitors have replicated.

Marc, thank you for joining us in London.

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

Pleasure always.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

So, Apollo was founded in 1990 with a focus on private equity. But actually initially, a little more of an investment banking focus. The firm now has evolved into a diverse global alternative asset management firm with scale across all three channels: institutional, individual, and their leading insurance platform. Now, Apollo pioneered the

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retirement model with the creation of Athene and is also a first mover in investment-grade private credit and is also capitalizing on the industrial revolution.

The firm now manages more than $1 trillion in AUM and is one of the five largest alt managers in the world across all metrics. So with that, let's get started.

QUESTION AND ANSWER SECTION

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

We'll get started with the macro. The macro backdrop has definitely been more resilient than many expected, yet uncertainty remains geopolitically, fiscally and also in the rate trajectory. Marc, how are you reading the environment right now and what does it mean for Apollo's outlook and portfolio position?

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

A

So the fundamentals are actually quite positive. Everyone has a job. There is no immigration. Let's talk US first, which is the largest market. Everyone has a job. No immigration. You have a massively accretive CapEx cycle, which is creating demand across lots of different sectors. You have a government policy incredibly accommodative. Capital markets are wide open. And so, valuation aside, I think it will be difficult to cause a US recession over the near term. The companies have been shockingly resilient. Earnings are up. And generally, credit performs well if the economy is good, absent specific risks or stupidity.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, Apollo's grown into one of the largest alt managers in the world, yet the business model remains underappreciated by some investors. Can you frame the big picture for us? What differentiates Apollo versus peers, and why should investors be paying attention to this now?

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

A

So I'll start with our industry. In our industry, 95% of the firms literally want the world to stop changing until they retire. And that does not surprise me because the size of the private markets are much bigger than any of us thought it was going to be. And people have created a lot more wealth than they otherwise thought they were going to create and it is very difficult to kill these firms because they bleed down over a long period of time, making very few decisions each year.

In our industry, a handful of firms, fewer than 20, have decided to evolve their business model to serve the new environment. And by my calculation, 10 have succeeded. We're one of those 10, and then you now get down to unique foci of each of the individual firms and what we're trying to do. So if I look at the big macro that applies to all of us, we are a source of excess return per unit of risk. If we ever lose focus on that, there's little value in wanting to be in private markets versus public markets.

The second is we are being driven forward as an industry by this global industrial renaissance, which is happening everywhere in the world, and the scale of it is off the charts. And the third is we are increasingly being

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sought out as a means of diversification versus public markets, where the S&P 10 companies or 50% of the S&P all levered to the same trend, and you're seeing the same thing happen in credit markets. And so, those three macros are driving our business.

I'd say on a more Apollo basis, we've always, as an industry, been serving one client, the alt bucket of institutions. And we are fortunate we have five new clients. We have individuals, we have insurance companies, we have debt and equity bucket of institutions. We have traditional asset managers. And we have 401(k), DC, and all forms of retirement.

That first client, the alt bucket, started with a business model that was based on funds, and it turns out that none of the five new customers are natural investors in funds. That doesn't mean they won't come to us in semi-liquid format, but in size and scale, I do not believe they're going to come and fully get the benefit and integration in private markets and that we are going to have to go to them. It's a big differentiator of what we're doing versus everyone else.

What does that mean? That means daily NAV. We are now daily NAV across our IG suite of products as of 06/30. We'll be daily NAV across the entirety of our credit business September 30. It means everything has a CUSIP or an ICE ID. ICE being the owner of the New York Stock Exchange, not the immigration enforcement.

Things trade. We've traded north of $30 billion so far this year. We'll be $50 billion by the end of the year. And the last piece will be regular-way settlement and I think we will get to regular-way settlement by next year.

And so, if you think about what that means, we will need to go to those clients and become part of their operating infrastructure as opposed to asking them to come to us. And I think you're seeing the beginning of this, not just in the things I've just mentioned, but also in the product structures. And I'm happy to delve into that, but don't want to take too much time on one question.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, Marc, you always kind of mentioned that the bottleneck of the business is origination. So, I'm curious how your origination platform has evolved. What is the ecosystem look like today and where are you investing in origination for the next leg of growth?

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

A

So, originally, look, we – having started Athene from scratch 2008-2009, we discovered pretty quickly that if we wanted to succeed, we could not rely on public IG markets. Definitionally, the public IG market is beta. It is 100% beta. There's no alpha left in it. And if a big determinant of the profitability of a retirement insurance company is their ability to have asset alpha, we needed investment grade because that's what belongs in a regulated balance sheet, but we also needed alpha. And so, we began the origination business. Origination initially started out as platforms only and then a little bit of calling on corporates. And now, it's a full-fledged servicing of this global industrial renaissance.

And so, if you think about where we're building, we're building in the places that are necessary to provide capital, and the scale of capital is really hard to appreciate. In the US, $4 trillion-plus. Canada, for those who watch the Canada Investment Summit, they're looking for $1 trillion. The Gulf, $1 trillion. Who knows, even Europe might actually get going.

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And so, it's energy. It's energy transmission. It's energy transition. It is infrastructure. It is next-gen manufacturing. It is defense, and it's AI and data. And it's all happening at once and it's happening at a scale. And so, the places we're investing enable us to take advantage of that. And we're seeing it across the globe.

If I just tick off the big issuers, certainly the issuers here – BP, Shell, AB InBev, Air France, EDF, RWE, AT&T, Caterpillar, NVIDIA, Broadcom – it is not what most people expect in the private market, the names that they expect to hear. And what's happening is corporate CFOs around the world now understand that if they want something that is short-dated, there is no better place than the banking system. The banking system is the most efficient provider of short-term capital because it funds itself with deposits. The banking system is not a great provider of really long-term capital because that is an unnatural act.

We're watching. If something is really straightforward and can be done 10-year, final 3-year no-call, the public markets are an amazing place to get low-cost capital, and the calendar of those who watch this market is off the charts. If you want anything other than those two things, you're now coming to the private market. And most of what's coming to the private market is investment grade, although it's not entirely investment grade.

And for us, we like it because the credit market is a fundamentally different beast than the equity market. In the equity market, you will take concentration because you have unlimited upside. In the credit market, you only get your coupon on your principal. You will not take concentration, unless you are offered more compensation and more safety.

And so, that's the market we're in. We're providing concentrated amounts of capital primarily to investment-grade companies. And while they have alternatives in public markets, the scale of capital required is causing them to not just offer more compensation, but more safety.

And the way I describe this in its simplest form, every IG deal is unsecured holding company. In a world that's changing fast, that's not where I want to be, especially for no compensation. Almost everything we do is at the asset level and secured. That is how we pick up the margin of safety, and then compensation speaks for itself. If you have the full faith in credit of an investment-grade borrower through guarantee or otherwise, that's one spread. If you're being asked to do something more complicated, that's another spread.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, let's focus on AI adjacencies for a moment. So Apollo has been one of the most active financiers of AI infrastructure, and you've had several marquee announcements with xAI, Broadcom and NVIDIA. How are you sizing the origination opportunity and what concerns around overbuilding and a potential bubble? How is Apollo really insulating itself for that scenario, if that would come to pass?

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

A

So, AI data is not one thing and it's not one risk. So if I had to mention the bets, there's energy. And I'll again speak in a US context. The US has not built energy of any appreciable amount for 20 years. We are short energy. Energy is fungible. As long as it is costed in the right way, I do not think of the risk of financing energy as the same as financing a data center. So we've been financing a lot of energy.

The second is chips. The chips that are going into the data center represent by – generally the largest cost of a data center. One can actually look out over the next five years and understand the capacity of the world to

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manufacture chips for data centers and come to some pretty healthy conclusions that there's not going to be lots of capacity coming online.

So, massive amounts of capital can be safely deployed against chips, where the costs amortize down over a four- and five- year period to zero, where the chip manufacturers take residual risk or you're getting the upside on residual risk, but with some amount of downside protection.

And so, again, I think you can divorce the success or failure of the data center business from a chip financing and then, ultimately, there's the financing of data centers, which come in a variety of flavors. If Microsoft wants a data center built or Amazon or Meta or Google or anyone else of that caliber, and they are prepared to be your offtake provider, you can finance that project as if you're financing one of those companies as a project finance, but at a wider spread.

On the other hand, if you're being asked to finance something that envisions utilization and renewal rates and offtake rates on a merchant basis, I don't know how you do that. And so, the large bets we've been making are energy bets and they are chip bets. And with small amounts of equity out of a risk bucket equity, we are an investor in the equity of data centers. We own something called stream. We build data centers, but it's a relatively small piece of the portfolio.

And so, from a safety point of view, I think data centers is just a big term. I think there are lots of ways to pick apart the collateral to get where you need to get, to deploy large amounts of capital, and the three you mentioned are all secured financings against chips.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Marc, let's talk about the divergence between – or the convergence between public and private. So, over the last 12 to 18 months, Apollo has announced several initiatives: market making, daily pricing, and ICE IDs. That speaks to a broader convergence between public and private markets. Strategically, what are you trying to accomplish and how do these initiatives fit together as part of Apollo's longer-term vision?

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

A

They're all pieces of serving the five new markets that I mentioned earlier. I do not – yes. I think the attractiveness of private markets will cause or motivate people to come to private structures, where it'd be the semi-liquid structures or fully illiquid structures. And they've done that in size, as you've seen, in what I'll call the traditional retail high-net-worth business.

On the other hand, the wholesale broad adoption, I do not think, is going to come, other than if we meet people where they are. And most people, most infrastructures are set up as public market infrastructures. If we remain as – we have a big portfolio and then we do this private thing off to the side, I think the business will not achieve its full potential. And so, all of the things you mentioned along with settlement, I believe, are steps in that direction to make the product more uniform.

And I will take the minute and just talk about the evolution of product. So, the way people think about the product set today is in semi-liquid format. That's mostly how the high-net-worth, which is the most prominent of these new markets, is adopting it. But if you think about – I'll take Apollo's business. We're circa $1.150 trillion, $300 billion of equity, $850 billion of credit. And so change is coming to credit first.

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But the way you've accessed to our credit business over the past any number of years has been in a vertical strip. Sometimes, you buy the short duration IG, sometimes the core IG, sometimes the asset-backed, sometimes the levered lending, sometimes the European-levered lending, sometimes CSAR, or sometimes credit strategies, 16 different flavors of vertical strip. And you can buy the semi-liquid fund, the drawdown fund or the managed account, but it's still a vertical strip. And when you buy a vertical strip, you are subject to the liquidity of that strip. So in core IG, 100% of your money every 30 days. In levered lending, 5% of your money a quarter.

What if we took our whole $850 billion business and we dumped it into a big bowl, and we sliced it horizontally instead of vertically? We had an investment grade piece, we had a below investment grade piece and we had an equity piece. With any of those three pieces in different combinations, you could replicate all 16 strategies. You would not be in a fund, you would be in CUSIP securities that are rated, that are fully transparent, that trade, that have a daily NAV, daily price that settle. That's AMAPS. $30 billion later, $40 billion by the end of the year, my guess is double that the following year. Plus, we will do our best to incent some of our competitors to issue MAPS as well. You are essentially allowing people to access private markets in a way that is closer to how they experience public markets. It is not an exact replica of each of these 16 strategies, but they can get excess return per unit of risk. They can diversify. And if they change their mind on Tuesday, they can sell it.

I think we need to have a better imagination of how private markets are going to evolve rather than just the structures that exist today and assume that these structures will be the structures that dominate our industry over a period of time. We will raise three times as much money this year in MAPS as we will in retail, and we want to do both.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So let's talk about capital formation. So you've grown AUM at a very remarkable clip the last decade. Numbers are very large now. On the other end, you talked about now you have six buyers of your origination. Can you expand on each and how large they might get?

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

A

So, you start with the institutional alternative bucket, which is the structure of the whole underpinning of our industry. Generally, that is the smallest allocation of our institutions. Think of it as 10%.

I think from all the numbers I've seen, the retail market should be the size of the institutional alternative market. The debt and equity bucket of our institutions dwarfs their alternative bucket, insurance, 401(k), traditional. And I've been at the forefront of saying this and it's what I believe, I do not believe over any intermediate term that capital formation is our issue. I think we will need to straighten out our product sets as an industry to make the product set more attractive to those five new buyers. But I do not believe this is the fundamental issue. I think there's plenty of capital formation to do.

I think the issue comes down to origination. At the end of the day, the promise of private markets starts with excess return per unit of risk. If you are not successful in originating, I don't care if you have the best retail sales machine, the best MAPS sales machine, institutional sales machine or otherwise, there's no raw product for the mill. It doesn't matter what the refined product is on the other side.

And so, I think what we set out to 2.5 years ago to lay out a five-year plan, we envisioned a business that would grow 20% a year for the next five years. I don't think our industry will grow to the sky. I think our industry will need to evolve and create other profit streams around the business. So it is not just fully origination-dependent.

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Although for the time being, I think origination, given the scale of global industrial renaissance, is a really powerful trend.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, let's talk about private credit and wealth, which received an exhausted amount of media attention in the last 12 months. There's a lot of debate around credit quality, the cycle, new entrants with less discipline, 2021 vintage. I wonder if you could hone in on your product, ADS. How is its underwriting approach different and what is your outlook for this one?

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

A

So, I'm going to do it in reverse order. Let's start with outlook. So, across the entirety of the industry, without regard to credit quality, you have gating. The normal expectation you would have when an investor group says that it wants its money back, as you would expect, the underlying asset spreads to widen. That's exactly what hasn't happened. Spreads have tightened. And it shows that there is institutional demand, CLO demand that is more than offsetting the lack of demand on the high-net-worth side. So, this is not a question of product.

The other thing I think we need to do is we need to put this in perspective. The private equity industry is more than 40 years old. It experienced a massive spurt of growth. Over the last decade, it has been flat to sideways. Why would the private credit industry, as you're using it, direct lending, levered lending, why would we expect it to be anything other than flat? I think that's what we're seeing. The size of the market is flat. And so you're seeing spreads tighten. And I believe what we witnessed over the last decade was more bank retreat from the market and direct lenders filling their share than some bonanza in the marketplace. It is now a mature market and that you're seeing the dynamics of that play out.

Not everyone in the market will be treated the same way, and this will go to the first of your questions. You had a choice when you entered the high-net-worth marketplace as to how to market yourself to consumers. Since none of the consumers know anything about any of the brands, like we're all important but just to ourselves. Blackstone, KKR, TPG, [ph] Ares (00:38:54), Steinberg, no one knows.

And you were selling a dividend and a risk reward. And if you decided to sell a high dividend, you work with a lot of leverage. You invested more in technology, you did more PIC, you went to smaller companies because that's where you got excess compensation.

On the other hand, if you were approaching this as a principle where it was just a piece of your business and you own everywhere across your structure, you did large cap, you did first-lien only. You did cash pay and you went with low leverage. That's the choice we made. Others made other choices. And I think what you'll see over time is you'll see divergence in performance as people figure out, as consumers figure out who was who in this crisis.

And every time we've seen a financial crisis or a financial setback or market correction, the responsible players tend to pick up share. We view ourselves as a responsible player in the marketplace. We're not the only one, and I think we'll do just fine. And the product is performing and doing what it needs to do, but I'll end where I started. The fundamentals of the market are not driven by the queue of investors at high net worth who have asked for their money back. The fundamentals of the market are driven by tightening spreads and a demand for a flat product from CLO and from institutions, because it still represents a better risk reward than high yield and a better risk reward than BSL. And that's been the history over the last decade.

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Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So Marc, your presence in Europe has been growing. You announced several marquee acquisitions, including Atlético de Madrid. Can you give us an update on where your European business stands today and what it could look like in five years?

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

A

So, I'll start with if you think about the big trends driving the world, they require lots of capital. And I've said this and Jim and others have said this, I think that Europe writ large will be the best private credit market in the world on a percentage basis because Europe needs to do and is interested in building everything that the US is doing, but it starts from a more constrained position. Governments are more constrained, the financial system is more constrained. The investor marketplace is more limited. The banking system is full and much more dominant here and not the right direct lender of capital. And so, on a percentage basis, Europe will grow faster in direct lending, not levered lending, but mostly investment grade than anywhere else in the world.

And the other benefit is you're seeing the borrowers, they're quasi-sovereign. Yes, Air France is an independent company. EDF is an independent company. RWE is an independent company, BP, Shell. But they are so intertwined with the business of their home country and state and local municipality that it is very difficult sometimes to separate the credit worthiness and the scale of capital that is needed is off the charts.

And so, I think this is a matter of education, whereas CFOs in the US in capital-heavy industries fully understand the three-product dynamic of bank, public and private. Europe is a little bit behind in that understanding. And the more time we spend here, the better. A couple of marquee deals is the single best way to market.

The other is you have difference in regulatory approach in insurance regulation, which has made the guarantee market in Europe for guaranteed lifetime income and guaranteed income of any sign very hard to deal with. And so, we have increased our presence, particularly in the UK, with the acquisition through Athora of Pension Investment Corp. (sic) [Pension Insurance Corporation Group] (00:42:58). And we see the market pretty much in the same way we've seen the US market, which is, if you have product that fits matching adjustment that is of the right credit quality, you can provide significant value to the consumer, and increase your presence and market share in a market that is already going through significant growth of restructuring of the retirement system.

The same thing is happening in Germany, but not through insurance. It's happening through non-insurance PRT. And so, any amount of time we spend here is generally productive.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Marc, if you had to identify the single biggest catalyst for your business in Europe over the next three years, would it be an acquisition? Is it regulatory? What could it be?

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

A

I think it's passage of time. I see it every day in our business and it's an interesting thing. And again, I may have said this to some of you, but I'm old and start repeating myself. We did a media event last night where we had a lot of the UK press, particularly the financial press. And the financial press refers to the entirety of our industry as private equity. And I said, what percentage is private equity of our business? The numbers were like 40% and

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50%, as opposed to like 8%. And I joked with the reporter from the FTE, it's like referring to the FTE as a conference company. You pick the small part of their business and that's how you define it.

And so, it is our job now to define what private markets are in the context of Europe, where there's not a tremendous amount of knowledge of private markets. And what they do know is all about buyouts and leverage and transactions. And that's what the financial media wants to cover, as opposed to a solutions provider for a fundamental missing piece of capital.

And you've had the Draghi Report. You've had any number of other respected individuals weighing in. This is neither a positive nor a negative on the European choices, but Europe is much more dependent on its banking system than the US is. In the US, banks are 25% of lending. Investors are 75%. In Europe, it's pretty much reversed.

Given that the missing piece of capital is an investor piece of capital, it's not going to come from the public markets. Europe is going to need to make its peace with private markets and part of that is firms like ours spending real time here, putting real European leadership in place, and making sure that we are adding to the value of what they need to achieve as a country, country-by-country.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So your retirement business in Europe is called Athora. It's the Athene of Europe. You announced a landmark deal, PIC, in the United Kingdom recently. Is that transformational, and how do you think about the UK market versus some of the other countries in Continental Europe in terms of growth?

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

A

Well, if you think about what Athora is, Athora has two sizeable markets. Athora has the Netherlands and it has the UK. The Netherlands, the local company in the Netherlands is growing very fast. It is among – I believe it has the largest market share of the pension risk transfer market and new business in the Netherlands and is doing great.

We have, in the UK, a forecast of a really significant shift from corporate pensions to pension risk transfer over the next decade. The UK has expressed a strong preference not to have that done through reinsurance, to have it onshore. And so, we had served this marketplace primarily from Bermuda and offshore reinsurance structures while collateralized.

The regulatory preference is that we do an onshore and we've added a significant amount of capital to PIC. We have significant capital available to do it. If there is good business to do at reasonable spread, the business can be done onshore. Now, what's interesting is this will force us to rapidly scale our UK origination.

At the end of the day, these businesses are totally also origination-dependent. If you do not have excess spread of investment-grade product, you cannot do appropriate business. And so, it's forcing a renewed focus on Apollo to make sure we originate sufficient matching adjustment, UK-eligible assets to serve the UK insurance market. And we won't just serve ourselves. While we will be the largest participant, we will serve UK institutions and other UK insurers, which we do already.

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Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So I want to hit on NAIC offshore regulation and capital arbitrage. You've been kind of very vocal in highlighting this. You're seeing this now with the Caymans. What do you think is the outlook for some of your peers and other insurance companies that are doing business there? What do they have to change and does this create opportunities for Apollo?

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

A

So, I think I'm going to give you a little more than you want because it's come up a lot in our private meetings today. The business is fundamentally four things. It is, can you get a return on assets? Do you have origination? Do you have a good source of stable liabilities at a reasonable cost? Do you have reasonable OpEx and do you have capital?

So if I work up in that order, if you work on OpEx, Athene's OpEx is like 16 basis points now. It is orders of magnitude better than all the established companies and orders of magnitude better than any newcomer. From a liability origination, the cheapest source of liabilities today is organically-originated liabilities that you originate in channel because they come with new surrender charges and they are now priced less than things you buy in the secondary market, which have degraded surrender charges.

We haven't done an acquisition of note for a long time, not because they're not available, because the cost of funds associated with acquisitions is not attractive. And if you are a new entrant and many of the incumbents, you lack the capacity to generate sufficient IG assets because that's not what you've done historically.

So if you don't have any of the three indicia of success and what you have is capital, what you've done to try to get to scale in your business over the near term, as you've taken your business to Cayman, where you don't have to put up the same amount of capital and can take a little more risk. That is a gaping hole in the US regulatory system to the extent certain providers get a hold – are forced to hold certain amounts of capital and you can move offshore to jurisdictions that are non-reciprocal.

I believe the NAIC and the regulatory bodies know this. The federal regulators are concerned about the size of this. The recent NAIC pronouncements tell me that this is about to be closed. Very significant movement by the NAIC to address this regulatory arbitrage and the race to the bottom. And by the way, it is not just with Cayman. You have a few US states that in order to make their local companies more competitive, have kind of done onshore Caymans, and I believe that you will have that, too.

The other piece of – and so we're very focused on this and we're focused on it selfishly. We are, in our industry, the largest. And so when Lindberg, for those of you know that, when we have this situation in North Carolina where someone steals and commits fraud with their company and goes under, we write $150 million check because we are the largest contributor to the Guaranty Association. We don't like writing $150 million checks. And therefore, allowing capital arbitrage where we are the guarantor makes little sense to us.

The other piece we have is a bit from the speech I gave at the NAIC Regulators Convention this year. If you think about the positioning in our industry, we serve retirees and our market is going to keep growing until 2050.

We are among the only sources of guarantee and guaranteed income. And from an investment point of view, we are perhaps the largest pocket of long-term debt capital in the world. We should be financial giant striding the

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globe. Instead, we are dealing with the potential of loss of trust. Loss of trust comes from regulatory arbitrage. It also comes from allowing situations like have happened with Delaware Life. If one was not aware of affiliate transactions relating to three high profile sports teams that we can all name, what are you doing as a regulator?

And then, we have pending in front of us a long-time transaction of a company that has had its issues, which is Brighthouse, also pending in Delaware. So, I believe that this has been a wake-up moment for the US regulatory system, where it has the opportunity to really make sure the industry gets the benefit of where it sits today, which is a very, very positive place.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So we have time for, I think, one more question. I do want to get to your new Austin, Texas office. But before I do, I just want to see if there's a question from the audience. So if there's any questions, please raise your hand. But if not, we'll jump into Austin.

Okay. So you have a new office in Austin, Texas. I believe it's focusing on AI and innovation internally. What is this office, who works there and what are you guys working on?

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

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So, we are opening in Austin, Texas. It will be a second headquarters for us and most of the growth of the firm will take place in Austin. It will give us, in our opinion, access to a differentiated talent base that was not available with, for instance, some of your East Coast locations, even though they're easier for me.

I think if you think about our business and about change coming, we're going to experience more change as an industry over the next 5 years than we have for the last 10. And if you think about the technology wave, almost everyone at Apollo can envision how technology shift will make their current job easier, and we're doing that.

A large percentage of the people can actually envision how technology shift, software becoming virtually free, can envision adjacent products and services and enhancements. Very few people can do their day job and envision wholesale change.

In Austin, what we're trying to do is to isolate people and let them pursue wholesale change. What are the big opportunities around our business that are made available from technology, but they're not really technology opportunities.

And if I give you a couple, like we already are a massive trader of private product. I think doubling down on the capacity to provide liquidity in the private markets and also adding capital to that, I think, gives us another profit center without adding new assets. I think a massive expanding of our lending business. Right now, you can borrow from Apollo programmatically against our non-equity product at 35% LTV at fixed rates over a number of years.

How do we do that more broadly for the private asset industry? I think we need to build the capacity to do at the custody level. I think lending will be a big potential source of origination, again, without adding new assets. And if I think about the future of retirement, annuities, variable annuities, RILA, they are complex products that the vast majority of consumers are not capable of picking apart and really understanding the nuances of those are products.

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Maybe the business eventually ends up as solutions. Maybe it's guaranteed three times MOIC, and that's the product. We're guaranteed lifetime income, and that's the product. To do that, we will need new ways of approaching it, new ways of marketing, new regulatory approval. And for me, that's where I think the future is.

We've committed to the market when we've laid out our five-year plan to grow our asset management business at 20% a year, grow our retirement business at 10% a year, and essentially $5 billion of earnings from each over the five-year period. And we're on track to do that. We have the luxury now of asking what comes next? Is it more of the same or do we have the opportunity to innovate and create new revenue and profit sources around the business that we already do so well and have a right to win in?

I think it's the latter. I think it's not just more of the same. I think it is the opportunity to innovate. And as I said, 95% of the companies in our industry literally don't want the world to change until they retire. It's a very small group of companies that is seeking to innovate, and we believe different things and we're each pursuing different strategies. And maybe it'll be a rising tide lifting all boats, but maybe there'll be more differentiation in our industry as well.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Well, Marc, thank you for sharing your perspective on the future. On behalf of all of us at Bank of America, thank you very much for joining us.

Marc Jeffrey Rowan

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

Thank you. Appreciate it.

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