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Earnings Call

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Call Participants

EXECUTIVES

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Martin Bernard Kelly
CFO & Partner

Noah Gunn
MD & Global Head of Investor Relations in New York

ANALYSTS

Alexander Bernstein
JPMorgan Chase & Co, Research Division

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

Benjamin Elliot Budish
Barclays Bank PLC, Research Division

Brennan Hawken
UBS Investment Bank, Research Division

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Michael J. Cyprys
Morgan Stanley, Research Division

Michael Patrick Davitt
Autonomous Research US LP

William Raymond Katz
TD Cowen, Research Division

Presentation

Operator

Good morning, and welcome to Apollo Global Management's First Quarter 2024 Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

This call may include forward-looking statements and projections, which do not guarantee future events or performances. Please refer to Apollo's most recent SEC filings for risk factors related to these statements.

Apollo will be discussing certain non-GAAP measures on this call which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP measures in Apollo's earnings presentation, which is available on the company's website. Also note that nothing on this call constitutes an offer to sell or a solicitation for an offer to purchase an interest in any Apollo fund.

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

Noah Gunn
MD & Global Head of Investor Relations in New York

Thanks, operator, and welcome again, everyone, to our call. Earlier this morning, we published our earnings release and financial supplement on the Investor Relations portion of our website.

We report strong first quarter financial results, which included FRE of $462 million or $0.75 per share and SRE of $817 million or $1.32 per share. Together, these 2 earnings streams totaled $1.3 billion, increasing 18% year-over-year.

Combined with principal investing income, HoldCo financing costs and taxes, we reported adjusted net income of $1.1 billion or $1.72 per share, up 26% year-over-year. Additionally, we declared a quarterly cash dividend of approximately $0.46 per share for the first quarter, reflecting the new higher annual run rate level of $1.85 per share as previously announced.

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

Before handing it over, I'd like to formally announce that we are hosting an Investor Day in New York on Tuesday, October 1. We will provide additional detail in the coming months and hope that you will join our broader team as we discuss the exciting long-term growth opportunities in front of us.

And with that, I'll now hand it over to Marc.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thank you, Noah, and good morning. As Noah detailed, first quarter results were strong. Personally, I was very pleased. FRE was $462 million, up 16% year-over-year. And you will hear a little bit from me but mostly from Jim, there is momentum in every part of the business. For SRE, we reported $817 million, up 19% year-over-year. Key note for the quarter, a record inflow of $20 billion for the quarter.

I'm going to spend some time providing color on the quarter but then quickly move to the outlook for the year. In the quarter, particularly with respect to SRE, we had 3 things going on. The first, really good. The team generated, as I suggested, $20 billion of inflows diversified across their funding channels, particularly three of their funding channels.

While they generated what they needed to, and origination, as you will hear, was very strong, they were somewhat mixed in terms of timing. The generation of liabilities took place at a relatively even pace, whereas most of the origination was back-end loaded, resulting in higher cash balances for the quarter, which we expect to even out across the year. The second, alternatives had a slight underperformance versus what we historically have normalized or come to expect had normalized.

But the biggest action in the quarter was our move to significantly derisk the floating rate book. Recall that we run a common sense strategy. When rates are very low, we have been able to earn very nice rates of return without maximizing current period SRE and putting on significant floating rate exposure, which gives us upside as rates normalize. You should expect, as rates have returned to more normalized levels, we use this as an opportunity to significantly reduce our exposure.

Exposure now is about $16 billion, probably where we're going to leave it for the near term. Sensitivity of 100 basis points move at floaters at this point is less than 5% of SRE. You should expect us to continue to move floating rate exposure up and down, reflecting first, the nature of our business; and the fact that we do not have -- while on the upside, we have linear participation in rates, on the downside, we do not have linear participation in rate falls. And second, there is a nice hedging element to having a certain amount of floating rate exposure vis-a-vis performance of liabilities during changes of interest rates.

All in all, a really strong quarter and one that gives me increased confidence that the outlook that we sketched out for all of you coming into this year will be met. I view this as on-trend.

FRE, we're expecting 15% to 20% growth in our -- in the non-flagship PE year versus the 25% we grew in '23. We have plenty of opportunities to invest in the business. And the trade-off as to where we end up between 15% and 20% will be, in my opinion, based on how much we choose to invest in the future.

SRE, we are targeting low double-digit growth, which we believe reflects the long-term run rate growth rate of our Retirement Services business. We do expect to still meet or exceed the $70 billion of organic inflows in 2024.

If I were to highlight momentum in the business, I'll pick out the 2 or 3 things that I think are really exceptional. The first, the lifeblood of our business is origination. $40 billion of originations for the quarter, roughly half from our platforms. Platforms, as you recall, are unique to Apollo and represent a recurring and enduring and growing source of origination. We, in my opinion, can only grow as fast as we can originate assets that provide excess return per unit of risk, and this is a significant focus for the firm.

Capital formation was also very strong for the quarter. Before I touch on the numbers, I'll touch on the philosophy. Capital formation is an important part of our business, but we have to be very careful to be measured in capital formation and not simply accept money at all costs at all times. We need to invest it prudently, particularly in new and growing segments where we are building investor trust.

For the quarter, capital formation was $40 billion, roughly $20 billion coming from Retirement Services and $20 billion coming from asset management. In the asset management business, there was a lot of momentum in global wealth, in particular, very strong performance at ADS. Recall that ADS is our 100% first lien, lowest leverage, run defensively, direct lending business. The team there has done a spectacular job.

There's also momentum in institutional. I'd pick out asset-based finance and third-party insurance as highlights for the quarter. Asset-backed finance is directly tied to our capacity to originate as many of the products that come off our platforms end up or are consumed in asset-backed form.

It is also tied to our philosophy of wanting 25% of everything and 100% of nothing, which produces unique alignment with our third-party insurance and third-party institutional and other clients. ABF is particularly well suited to insurance company balance sheets. There were $8 billion of ABF flows in Q1, including a multibillion dollar strategic investment from a like-minded leading financial institution.

In summary, momentum has been building in the quarter. And I believe we are set for and on track, consistent with guidance here. While this year is interesting, and Noah has already highlighted our Investor Day, share with you how the team thinks about the future.

We are in a really exciting industry. The two big pillars of growth that we see ahead of us are first, retirement. Like it or not, we're all getting older. The need for guaranteed lifetime income, guaranteed retirement income everywhere in the world exceeds what is currently provided. Whether you look at aging of population, whether you look at the decline of defined benefit plans, whether you look at the inadequacy or lack of preparation of governments around the world, I continue to believe that retirement is going to be a massive driver of our business. Retirement is ultimately built on a foundation of fixed income.

The second and perhaps bigger trend in our business is a wholesale revisiting by investors of the ABCs of portfolio construction. And when I say investors, I mean institutions and individuals. We are an industry that has been built out of the smallest asset allocation of our institutional clients.

In a very simple way, I think of our institutional clients as being primarily allocated, at least half to publicly traded equities; 30% allocated to publicly traded fixed income; and 20% allocated to everything else, meaning alternatives. Our entire industry growth has been out of that 20% bucket.

20% is the so-called private or alternative bucket made sense in a world where private was risky and public was safe. I believe we are revisiting the most fundamental concepts that underlie our financial markets. Private now goes from AA to levered equity; and public, which was 8,000 public companies, there's now 4,000 public companies. And the reality is 10 represents 35% of the S&P 500 and unique concentration to 2 or 3 companies.

Investors are already looking to their fixed income bucket, which historically has been off limits, and starting to ask questions about what is the difference between public and private? If both are safe and risky, this is just a question of liquidity trade-off. And liquidity trade-off is actually getting much, much closer. Liquidity in publicly traded fixed income is at record lows. Liquidity for private credit is actually increasing daily.

We are not -- I'm not saying that we're going to pass each other, but the notion that investors will begin to allocate to private markets, an entire asset bucket that they have not historically allocated to private markets, presents our entire industry with just an unusual path toward extreme growth.

I believe the same will happen in the equity bucket. An investor who wants exposure to the economy used to get it in public markets. Now more than half the economy is in private markets. While that allocation may not be to private equity, private equity being a product, a 10-year locked-up fund seeking very high rates of return with leverage. I believe investors increasingly will seek out equity exposure in private markets in other forms that exist today. And it is our job, as in our industry, to create the products for the future to allow investors to access 100% of the economy, given that it is no longer in public markets.

For us to succeed, this is not really a question of opportunity, this is a question of execution. Execution starts with origination. We can only grow our business as fast as we can originate. As you heard, $40 billion for the quarter. We have discussed publicly $125 billion goal of origination for the year. Our original 5-year plan had us getting to $150 billion by 2026, which I hope we will exceed. And no doubt, Investor Day will exceed $200 million (sic) [$200 billion] as our midrange target for where we need to be in origination. Again, growth in our business is limited only by our capacity to eliminate -- to originate good risk.

The second thing we need to do is to prepare for a change in how capital is formed. Capital -- the change is already happening, given the importance of global wealth to our industry. And we will be one of the successful players in that industry. And we value these relationships and run the business on a long-term basis.

We are essentially needing to build different ways of communicating with our clients. Historically, as you know, we've raised money from our institutional clients out of their alternatives bucket. And increasingly, we will need to cover their fixed income bucket and eventually their equity bucket. I believe we are well positioned to do this, and this is coming at a good time for us and for our industry.

And also if one steps back and thinks about where capital need is in the world, whether it's infrastructure, whether it's energy transition or whether it is to adapt to new technologies of data centers and the need for power, all three of those things represent long-term financing.

I do not believe that long-term financing is well suited to the shorter-nature balance sheets of the banking system nor to the daily liquid fund market. Increasingly, these long-term capital needs will be matched with long-term funding from our retail and institutional clients.

So again, number one, origination; number two, capital formation; and finally, product development, particularly in equity.

The migration of the fixed income bucket to private markets is already happening, and it's happening faster than I thought. In some ways, we expect that because there are signposts there. Rating agencies rate things in public markets and private markets. And so investors, as they begin to think about this transition, can look to credit ratings and others as a sign of comparability between public market and private market risk.

Equity markets lack the same sort of signposts. It is up to us as an industry to develop those kinds of products, and I'm excited about what the future looks like, not just in transition in the credit bucket but also in the equity bucket.

In summary, I like the hand we're playing. We are incredibly well positioned in Retirement Services with a decade-long lead over most of our competition. The work we have done on fixed income replacement and private investment grade, I believe, is particularly well suited for the transition that is taking place as institutions and individuals migrate their historically 100% public fixed income exposure to public and private. And I believe we are well positioned with our hybrid business to begin to address the migration that I expect to take place in equity.

Jim, over to you.

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Great. Thanks, Marc. Let me dive into a few more details. The foundation of our business is built upon delivering strong investment returns for our clients. And we have historically done so by upholding a purchase price matters investment philosophy across market cycles and strategies, which embrace downside protection structure in return for excess return per unit of risk.

Most recently, the industry has evolved into a paradigm marked by higher for longer rates, tighter spreads and extreme valuations, and we've responded accordingly. Over the last several quarters, we focused on larger companies and transactions at the top of the capital structure while employing less leverage than others in the industry.

Marc mentioned the ADS, Apollo Debt Solutions. There's a great example of that, where we produced a 14.5% return over the last year but a conservatively levered balance sheet of 0.6 with a 100% corporate loan portfolio.

Additionally, we continue to generate meaningful excess return in this intersection of equity and credit, which we define as hybrid, driven by a variety of structural changes and inefficiencies in the market. Our 2 flagship strategies in this area, the Accord series and the Hybrid Value series, have generated particularly strong returns, appreciating 4% in the first quarter and more than 16% over the last year.

Alongside investment performance, capital formation is a critical driver of our growth. We generated strong inflows across the business in the first quarter, as Marc highlighted, including $20 billion from our asset management business and $20 billion from Athene. And organic inflows, excluding any leverage or segment transfers, totaled $33 billion, which is on track with our $120 billion target for the year.

Double-clicking on this third-party fundraising. Credit-oriented strategies were very much in focus and accounted for more than 80% of capital raised in the quarter. Some of the more significant contributors included $3 billion to broadly support the growth of the Atlas ecosystem, $3 billion for high-grade alpha separately managed accounts, $2 billion for large-cap direct lending and our recently launched asset-based -- asset-backed finance fund.

As Marc mentioned, it is worth double-clicking on the fact that we've raised $6.5 billion of the capital from third-party insurers, reflecting the significant roads -- inroads we've made in this important growth area over the last handful of years. We're focused on delivering strategies that sit at the intersection of Athene's unique SRE playbook and Apollo's broad asset management capabilities, namely investment-grade private credit, which we believe is ideally suited for these insurance company investment portfolios.

To illustrate the scale of our alpha-generating capabilities, we've originated close to $80 billion of assets through platforms and corporate solutions over the last 12 months, which has generated between 150 and 200 basis points of excess spread versus comparatively rated liquid credits. As we continue to grow in these debt origination capabilities, we expect there will be growing interest from third-party insurers to invest alongside in the full spectrum of our ecosystem, a dynamic we've started to see. And all this works because of our alignment with Athene, which is critical to our value proposition.

Moving on to global wealth, which is a strategic and growing contributor of our capital formation activity. Our journey in building out this business, we've realized there are 5 crucial components in order to succeed: Investment performance, education, distribution capabilities, technology and a diversified product list, all of which we've successfully established over the last 24 months.

We believe that only a small group of firms can deliver on all 5. And with continued strategic focus and investment, we see ourselves among the best positioned for long-term success. The numbers bear this out as we've more than doubled our run rate fundraising level with our holistic suite of products. Monthly inflows approached $1 billion in April, a meaningful increase from approximately $650 million just a quarter ago and less than $400 million a year ago.

As I mentioned, one of the primary drivers of this activity has been our flagship corporate direct lending offering, ADS. April subscriptions totaled over $500 million, bringing year-to-date subscriptions to approximately $1.7 billion. And this represents approximately a 400% increase in flows year-to-date compared to last year.

Part of the step-up reflects recent market share gains in the non-traded BDC space with ADS capturing 17% of total inflows in 2024 so far compared to only 10% at the run rate in the fourth quarter. This overall growth has been enabled by leading investment performance combined with our expanding distribution footprint and attractive yield.

The next step in the expansion of our credit-focused product set within global wealth channel, we're on track to launch a new asset-backed finance vehicle in the coming weeks. Apollo asset-backed credit company, or ABC, is a semiliquid turnkey solution designed to provide our credit investors across our differentiating -- to access our differentiated origination capabilities and builds on the initial traction we've seen in our broader asset-backed franchise.

We believe the breadth and scale of our proprietary origination ecosystem, not just for sourcing from Wall Street, will position us to be a market leader in this nascent and important growth area of the global wealth market. Importantly, we structured ABC as an operating company, enabling us to access our full range of origination capabilities versus other traditional private credit structures.

And finally, Apollo Aligned Alternatives, better known as AAA, is our semiliquid equity replacement strategy, continues to be an important part of our global wealth offering. We raised $700 million of capital in the first quarter and continue to see strong fundraising momentum.

We have a pipeline of new distribution partners preparing to launch the fund over the next course of the year. And interestingly, we're also seeing growing interest from the consultant community and insurance companies as a cost-effective, scaled solution for private markets exposure.

Stepping back for a moment. We've observed that many in our industry have discovered the language of origination. As a result, our definition of fixed income replacement and private credit, a $40 trillion addressable market, has become mainstream and distinct from the traditional view of private credit. We were pioneers of these concepts 36 months ago and expect to continue blazing the path forward for this important area of secular growth.

As part of that, scaling our debt origination volume production is a strategic focus, and our quarterly results highlight that we're continuing to make meaningful progress. As Marc mentioned, total debt origination volumes of nearly $120 billion over the last 12 months is up almost 40% compared with our prior year period.

As a reminder, we originate assets across our yield ecosystem through three main channels: The traditional channel, platforms and corporate solutions. And more recently, we've identified partnerships with other financial institutions as the fourth avenue that we plan to expand over time. Additionally, we have expanded our focus on a fifth leg, the broad equity and hybrid ecosystem as well, which you will hear more from us in the future.

Over the past year, our platform ecosystem has been the primary driver of origination growth, having roughly doubled volume production over that period. ATLAS SP, our warehouse finance and securitized products business, has been the major driver of that activity.

One notable win to highlight in the first quarter was the $8 billion purchase of seller financing facilities from UBS. We acquired this portfolio at an attractive excess spread for IG-equivalent risk, which also proved accretive and attractive to third-party investors as we materially oversubscribed on half the trade and distributed accordingly. Looking forward, with the ATLAS business fully operational, independent and armed with a significant amount of strategic capital, both debt and equity, we're focused on meaningfully scaling that platform.

While platforms are an essential component of our origination ecosystem, we're also highly focused on growing our corporate solutions platform and business. We're investing a tremendous amount of time with a broad array of the largest, most sophisticated companies to educate them on the benefits of our multifaceted credit toolkit or toolbox and the benefits it can provide, namely speed, certainty, size and customization. And we're beginning to see those efforts bear tremendous fruit.

And finally, we believe that partnerships will become a growing contributor of our origination capacity over time. Historically, and especially over the last several years, we believe we've been on the cutting edge of strategic dialogue with various financial institutions. We're seeking to extend our vast array of solutions to these firms in a partnership manner which in turn will help expand our platform.

Importantly, as we scale our debt origination capacity and expand newer areas of equity-focused investing, we're creating more consistent and diversified deal activity that feeds into our Capital Solutions business. While quarterly variability in fee revenue should be expected, we're observing that the business is reaching a point of consistency amid continued growth potential. In the first quarter specifically, Capital Solutions fees were solid, supported by record quarterly gross capital deployment of nearly $60 billion across the platform.

With that, I'll turn it over to Martin for more detail.

Martin Bernard Kelly
CFO & Partner

Thanks, Jim. Good morning, everyone. Let me close out with some brief comments on our financial performance. Our first quarter results positioned us well to deliver on the financial targets we've communicated for 2024, which signal an attractive mid-teens earnings growth trajectory.

We view the sustainability and predictability of our earnings profile as highly valuable and increasingly appreciated by the market, especially against the backdrop of macroeconomic uncertainty that has impacted more cyclical revenue streams.

Starting with the asset management side of the business. FRE trends remained solid with 16% growth year-over-year, reflecting revenue growth of 13% and cost growth of 9%. As we look towards the remainder of the year, we're on pace to generate the fee-related revenue growth, margin expansion and overall FRE dollar growth we have indicated.

We expect growth in fee revenue to be supported by strong and diversified capital formation, a record $50 billion of dry powder with future management fee potential, and a robust capital solutions outlook that should deliver a strong second and third quarter based on the pipeline we see today.

For expenses, we will continue to manage our cost base prudently while selectively investing in key areas, principally global wealth and our credit business. We also expect to recognize a $15 million onetime non-comp expense related to the previously announced merger of two closed-end funds with and into MidCap Financial Investment Corp., a publicly traded BDC we manage, which will most likely occur in the second quarter on the closing of these transactions and which was contemplated in our original expense growth guidance for the year.

Altogether, we expect to generate between 15% and 20% FRE growth, as Marc indicated, in line with our growth expectations for a year in which we do not raise a flagship PE fund.

Turning to Retirement Services. We reported SRE of $817 million at a 147 basis point net spread. Adjusting for long-term expectations for alternative returns, net spread would have been 10 basis points higher in the first quarter; and on a comparable basis, 9 basis points lower than fourth quarter levels.

This sequential decline was driven by 2 factors; One, higher on the margin cost of new business in the higher interest rate environment, together with the delayed deployment into higher-yielding assets that Marc highlighted; and two, an approximate 5 basis point in-quarter spread impact associated with hedging a portion of Athene's net floating rate position and higher hedging costs on certain in-force business.

As Marc suggested, we reduced the net floating rate portfolio by $9 billion to $16 billion during the first quarter, which results in 7% of net invested assets being subject to floating rate indices. As part of this hedging effort, we swapped $8 billion of fixed rate liabilities to floating and issued $4 billion of additional floating rate funding agreements with the negative carry associated with each recognized as part of our cost of funds in the quarter. We believe that this level of floating rate securities will adequately equip us from a strategic standpoint while also protecting future earnings power should rates decline materially.

Given the smaller portfolio size, our floating rate income sensitivity has commensurately decreased to approximately $30 million to $40 million of annual SRE for every 25 basis point move in short-term rates, down from the $45 million to $55 million that we previously indicated.

We expect the timing differential between origination and deployment of capital to normalize through net spread in coming quarters. More specifically, there were two large asset transactions that closed towards the end of March which, had they closed midway through the quarter, would have created a further 3 basis points of higher net spread in quarter.

Considering key components of Athene's earnings growth outlook versus our fourth quarter call, namely first quarter net spread results, a smaller floating rate portfolio and fewer expected rate cuts as implied by the forward curve, we continue to expect net spread of approximately 160 to 165 basis points for the full year, which excludes notable items and assumes an 11% annualized alts return. We expect this range of net spread, coupled with robust organic growth, to support low double-digit SRE growth this year versus the comparable 2023 base.

In -- turning to PII. PII has been an expectedly modest contributor to our earnings base in recent quarters as we await a more favorable backdrop to monetize investments. First quarter realized performance fees were also impacted by an impairment on a position held in Fund IX. Looking to the second quarter, we currently expect to generate a similar amount of PII as the first quarter.

An important catalyst to reignite realization activity is a reopening of the IPO market as only around 10% of our fund's total PE portfolio is publicly traded today. We've seen early signs of this happening and see a path for an acceleration in PE realizations into 2025 and beyond. Increasing amounts of realized carry would generate additional cash flow to deploy into opportunistic share repurchases, enabling us to execute on our plan to reduce our share count to approximately 600 million shares by the end of 2026.

Finally, on taxes. After a large non-recurring benefit in the prior quarter, which reduced the 2023 annual rate, we experienced a 17% effective tax rate in the first quarter. For the full year, we expect our tax rate to approximate 20%, consistent with our long-term guidance with a rate slightly above 20% expected in the second quarter.

In closing, we are generating significant momentum as we continue executing on our business plan, which is setting the stage for our next phase of growth. The earnings power of the business has tremendous potential, and we look forward to delivering on the opportunity in front of us.
And with that, I'll turn the call back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Today's first question is coming from Glenn Schorr of Evercore.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

So I like hearing about all the progress in the wealth channel. My question is, in the asset management segment, non-comp was higher. One of the things you noted in the footnote was higher placement fees, so good expenses.

So I'm just curious, obviously, that's included in your 15% to 20% FRE thoughts for the year. But I've been hearing some talk about moving -- some of the distributors want to move from placement fees to something smoother of a revenue share. And I'm curious if that's in motion and if that's part of your thought process within your FRE expectations.

Martin Bernard Kelly
CFO & Partner

I'd say -- I can say a couple of things, Glenn. It's Martin. Firstly, we are -- we're at the back end of the financial impact of decisions we've made to reset our cost base, both comp and non-comp. And so you should expect that Q1, which was a step-up from Q4, represents normal going forward. And so -- and that's all consistent with the guidance for the year, which is 100 basis points of margin expansion, '24 over '23.

In terms of the specifics around the question, there are actually a variety of different ways that we distribute products. Some involve an upfront placement fee, which is typically expense and in the numbers. Others involve a trailer fee against revenues. So it's a mix actually depending on distributor and product.

And so there's no real change. It's just there's different constructs that are appropriate for different products. And we have products that distribute using each of these sort of trailer or cost structures.

Operator

The next question is coming from Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

I was hoping we could start maybe with your outlook for third-party fundraising. You guys are obviously off to a really good start here in the first quarter. So maybe update us on what you're expecting for the rest of the year with respect to third-party fundraising. What are some of the key drivers behind that? And as you sort of think about some of these larger insurance companies coming in into your offering, how should we be thinking about the fee rate, particularly within the yield bucket, on the blended basis going forward?

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Thanks, Alex. I think Marc and Martin hit it. Like we think the first quarter, it sets the level for great trend growth throughout the year. We're very comfortable that what we've seen in terms of the last 24 months, bringing the products together, being very thoughtful about our product suite, really delivering a holistic package. So we're very comfortable taking the first quarter and looking at that as the year grows out.

So in our mind, the numbers we've put forth in terms of full year target of the $50 billion, we still feel very comfortable with that. And the traction across all of our channels would feel -- give us the great comfort.

Certainly, a lot of the conversations are going on around the yield businesses. And whether it's what we're doing in direct origination, the pioneer moves we're making in asset-based finance, Marc alluded to the insurance company in terms of the ecosystem and the broad breadth there. So in our simple summary, we love the trend. And we're hitting on all cylinders, and it's across products.

But certainly, yield is the primary, but we also have solid fundraising in a variety of our hybrid, whether it's the Accord Plus; whether it's HVF later in the year; or in our equity businesses, AAA and infrastructure and such. So feel very comfortable with the trend, feel very comfortable. The themes that we're seeing are strong.

And I think there's this -- in the industry, and Marc alluded to it, but just much, much greater cooperation across a variety of like-minded positioned investors in the insurance industry as well as in the banking business, which we can talk about.

Fees, we're not seeing fee compression. People want product. They see it's interesting. If you look at where the high-yield indexes are this morning as we have this call, basically, if you look where those levels are today, they're extremely tight. And if you look at where high yield is right now, it's basically 350 over. And for you to make these investment-grade investments for these insurance portfolios, 250, 300 over, it's incredibly attractive.

So we don't see fee pressure, we see a trend line growth, and we're comfortable with the pipeline.

Operator

The next question is coming from Brennan Hawken of UBS.

Brennan Hawken
UBS Investment Bank, Research Division

I'd love to hear updated outlook on capital solutions. Really strong revenue momentum there, building on last year's strengths. So were there any particular platforms that were notable contributors? And given the building momentum behind capital markets activity, why shouldn't we see those revenues continue to show robust growth?

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Well, this is Jim again. I think there's a number of questions there. We do get excited about our capital solutions because it ties into not only distribution of great ideas, and as Marc said, 25% of everything and 100% of nothing, but it increases the dialogue that we have in our capital formation. Investors see the product that they're seeing from us and it opens the door to get closer. And again, so we're seeing momentum.

I think taking a broad step back, some of the themes that Marc talked about, whether it's not only it's the transition from equity that's private versus private equity, a variety of these asset-based solutions like the seller financing from UBS, these are all trends that we believe are going to continue to expand on the existing business.

And then when you think about what's going on domestically with large, whether it's the Infrastructure Act, the CHIPS Act, what's going on in EV, there are many, many investment-grade companies that are going to be confronted with massive growth initiatives. And it's not obvious that they should do it through the traditional channels of investment-grade public debt or equity. And we're just finding ourselves at the intersection of those conversations. Certainly, you've seen what's happened in the past several months with what we did for Air France and Vonovia and many other companies.

But again, our model is based on making sure that we are an investor first. But this ACS, the flywheel of origination, distribution, getting closer to your clients and then finding new avenues from which companies will fund and finance, that flywheel is working. And so while we do expect growth, we want to do it in a very measured manner.

Operator

The next question is coming from Bill Katz of TD Cowen.

William Raymond Katz
TD Cowen, Research Division

Look forward to seeing everybody in October, if not sooner. So Marc, not to steal any thunder from a couple of months from now. But when you laid out your goals for the sort of 15% to 20% FRE growth and the low double-digit growth for SRE, your flywheel that Jim was just talking about was substantially smaller. How do we triangulate between the sort of the rapid growth of your ecosystem to the financials in terms of thinking through the earnings growth?

It would seem to me that you should be able to support either or both faster asset management growth and/or higher ROE in the insurance business. Or is there an elevated expense offset to some of that flywheel acceleration?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

I don't -- thanks for the question. I don't think any of the above. I want to come back to and I guess maybe be a little bit of an outlook for the industry. Our industry has amazing potential. The case for private markets is a very compelling case. People used to look to private markets for excess return. Now they look to excess -- to private markets for both excess return and diversification.

I saw a note the other day from our Chief Economist, better than 80% of employment in the U.S. is in private markets. We think about S&P 500. We think about public markets. We spend so much time talking about them. But investors increasingly are now recognizing that they have exposure to a very small sliver of the economy through S&P 500. They're all -- my joke is they're all levered to NVIDIA, Apple and Amazon.

So I expect there to be very robust growth in private markets. All good. The lockdown -- we, as an industry, have to be very careful to stick to our promise of excess return per unit of risk. That is why investors pay us premium fees. That is why they trust us. This is how they navigate private markets, with firms they trust.

We are limited, and I believe we will all in the industry discover, we are not going to be limited by capital flows. But the taking of capital because you can take it and then investing it poorly is a quick way to destroy a business. I think we've seen lots of examples of that and the beginnings of those seeds being set. We are very focused on growing our business in the context of excess return per unit of risk, which is limited, in my opinion, by origination and by culture. We are balancing those two things.

And so -- well, I'll say it differently. I like the position we're in. To be a $670 billion asset manager sounds like a big number, but the reality is, in the scheme of the markets we serve, we're minimal. The notion of doubling our business over the next 5 years, it doesn't seem all that daunting.

The things we need to do: Origination, culture, education because to build something that's not sustainable is not what we're interested in doing. Sustainable, predictable, 15% to 20%; long term in the asset management business; low double digits in SRE. If we get periods of market volatility where things are really mispriced and we can put large amounts of capital to work, as historically we've seen at least once a decade if not twice a decade over the past few decades, you will see those accelerate. Origination, origination, origination for us.

Operator

The next question is coming from Ben Budish of Barclays.

Benjamin Elliot Budish
Barclays Bank PLC, Research Division

I wanted to ask about some of the nuances on the retirement services flows. It looks like your FABN issuance was a bit better than what we would have expected from what we saw publicly. The PRT side was a little bit lower. Just any nuances there.

And on the PRT side in particular, any concerns related to some of the shareholder lawsuits that have materialized in the last several months? Do you think that sort of increases the concern that a corporate might give some pause before engaging in a transaction with Athene? Or do you feel like this is something that will blow over, and Athene will shake out just fine?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thanks, Ben. It's Marc. The business is a 2-sided business, and I've said this a lot. And it's -- we've been the only ones disclosing this. So it's been difficult, I believe, for analysts to really understand it.

Our business is about creating spread. If we don't have wide spreads, we're not interested in doing business. We have better uses for the capital. And so we have built, and Jim has spent a lot of time talking about the asset pipeline, private investment grade, excess spread on the asset side. I'll focus now on the liability side and get to your question.

We have built, over the past 15 years 4, different channels in which we can originate. In various periods of time, some of those channels are really attractive and some of them are not that attractive. Last year, FABN was not all that attractive. This year, FABN is very attractive. Reinsurance, particularly international insurance in -- from Japan, really attractive business. FIA, really attractive business.

In PRT, PRT was one of the most attractive segments of business last year. This year, prior to any lawsuits, we saw cost of funds associated with PRT at levels that reduced spread to places where we just didn't think the business was all that attractive. A win is only a win if you have wide spread.

The lawsuit is actually going to, in my opinion, chill PRT volume across the industry. This is not an Athene-specific issue. Athene is the strongest of the companies in the industry with the most capital and other things. There are and have been other lawsuits relating to this. Any time you have noise, however undeserved or poorly drafted, it needs to be disposed of first.

I think we will see a decline in expected PRT volume this year. I'm not sure that's a bad thing from our point of view given that, at the moment, spreads in PRT are not all that attractive.

I encourage all of you to look not so much at flow, but to look at cost of funds and spread. Cost of funds is a very tricky measure. There are lots of ways management teams across industries have been surprised by the cost of various options and features that they have built into their products.

For us, we have built this business in partnership with Jim Belardi and Grant and the team from the very get-go. As owners, for owners, it's our equity. We want high-spread business. Thank you.

Operator

The next question is coming from Patrick Davitt of Autonomous Research.

Michael Patrick Davitt
Autonomous Research US LP

My question is on the ATLAS-MassMutual partnership. Firstly, any framework you can give on how to think about the impact on ATLAS' origination volumes and thus Apollo earnings?

And then secondly, the press release suggested there was also some sort of separate flow or management agreement with your ABF business. Is that a fair read? And how should we think about that secondary agreement as well?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

So first, I've said this publicly, and it's actually kind of an interesting observation for how this goes. I think when I think -- I'm asked often who our best competitors are, I think MassMutual is our best competitor. I look at what they do on the asset side. I look at their -- on the liability side, the quality of the team.

That does not in any way mean that we should not be partners with them. We want and we continue to deliver this message, and it is resonating. We want 25% of everything and 100% of nothing. They are a like-minded, high-quality financial institution who sees the same opportunity that we see and increasingly what the rest of the industry is seeing. They're just among the first movers.

As to the specifics for ATLAS, I'll let Jim delve a little bit. And I know there's a lot of enthusiasm about ATLAS.

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Yes. I think continuing to taking the wide scope and then drilling down, I mean, ATLAS for us and this conversation about what private credit is historically been defined versus what it really is defined, the $40 trillion, ATLAS is really that platform, of our 16, we've got 6 or 7 that really drive the activity. And what you're seeing in the recent announcements about ATLAS is it is a finance lender to finance companies. And therefore, the breadth and scale of equity and debt financing that, that vehicle attracts and needs to have, as well as SMAs, partnerships, offtake facilities, that's what we call the ATLAS ecosystem.

And it will continue to grow. We've been very successful since we've closed it. It's fully ramped. It's fully funded. We will have other folks that you'll hear about be coming into us. But it's that flow that lets us have the ABF institutional fund. It allows us to have ABC, which is the vehicle that I mentioned.

And I really want to differentiate because I heard a lot of these calls the last couple of days talking about SRT. This is just making sure that we control the origination on a systematic, structural long-term basis. Not a one-off SRT trade, which is interesting and bespoke, but those were interesting tactical trades. We wake up every day saying, how can we -- when Marc talks about getting the liability and focusing on spread, how can we ensure that we have as large a pool of long-term assets feeding that -- those liabilities, offsetting those liabilities.

And ATLAS is just one of the big, big pieces. And when we think about that, it's much more dramatic than the quarter-to-quarter activity in SRT trade, which is one of the 40 tools. We're very involved in that sector. We've been doing it since '09. Some of the more recent transactions are a little bit [blind] pool, exceedingly strongly levered, but they are strong IG assets. But again, I would note, those are things that you source from others, whereas ATLAS allows us to source directly.

So the MassMutual dialogue and relationship is holistic. It's across the ecosystem. And we suspect that will be the template from which many, many others join us.

Operator

The next question is coming from Michael Cyprys of Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

I wanted to circle back to the new Apollo asset-backed company, ABC, that you guys are launching. I was hoping you could elaborate a bit on the product, the return profile. Interesting, you're structuring as an operating company. I hope you could elaborate a bit around that. And maybe just talk about your vision and how big could this be over time.

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Well, really, Mike, when we think about the activities in terms of consumer finance, hard assets, the broad areas of asset-based finance, this is the vehicle that lets us -- we have the institutional product, ABF, which we've raised some nice money and will continue to be one of our flagship pillars in the yield and credit infrastructure.

And this was created to really give the global wealth channels -- as investors have really grasped onto private credit, they realize they have a concentration issue in sponsor buyout activity. Now that's the recognition that there's a desire for diversification. So this will really be the first-mover product set.

You will see this as a majority of investment-grade risk, a majority of debt risk, but yet it does have some non-investment-grade debt exposure and some residual and equity exposures. But we are trying to have this be like ADS, our flagship product, that operates in the highest-quality growth in the sector and really is trying to get high single digits, low double-digit returns, but doing so in a very comprehensive manner by not using leverage but being -- really using the sourcing of the product.

So it will be our flagship product in asset-based as ADS is our flagship product in corporate credit.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Yes. I'm going to just punctuate this a little bit, especially given the environment we're in and the concerns over credit quality. We've been in this business a long time. And for me, this is -- for Jim and I, it's our 40th year. It's hard to believe that sometimes.

And I'll just take ADS as an example. We run ADS at 100% first lien. And we run ADS, I believe, with the lowest leverage in the industry. Could we produce higher rate of return, higher dividend? Of course we could. But we know that particularly as we're introducing an entire marketplace, institutional and retail, to the notion of private markets, that they should experience the same way -- this is the same way that the smartest institutions in the world have experienced it and not have returns artificially manufactured through leverage or otherwise. The time to be levered is when assets are really cheap and they're plentiful and available. The time not to be levered is when markets are tight and there's lots of liquidity.

It's easy to be seduced into wanting to produce high returns. We've always been focused on trying to produce acceptable returns, excess return per unit of risk. And the same philosophy that we run ADS and the team runs ADS by is how we're going to produce this in asset-backed to make sure this category, which should be as large as corporate over time, is introduced to investors in the best possible way. And going first and telling the story is exactly what we want to do.

Operator

The next question is coming from Kenneth Worthington of JPMorgan Chase.

Alexander Bernstein
JPMorgan Chase & Co, Research Division

This is Alex Bernstein on for Ken. I know there was a question previously around ATLAS and the MassMu relationship, so apologies if any of this is repetitive. But I do think there are a couple of other points we're hoping to dry out.

Firstly, do you see this type of arrangement accelerating your ability to reach the $200 billion to $250 billion long-term origination target that you communicated previously? And then secondly, how are you managing these platforms as a portfolio to reach your goals? And how are you thinking about the mix of outside capital, Apollo Capital, bolt-ons that best help you reach your growth goals and those of Athene?

James Charles Zelter
Co-President of Apollo Asset Management Inc. & Director

Well, thanks for the question. This will be a great conversation at our October day. But basically, we have these 16 platforms. The top 5 to 7, namely MidCap, ATLAS, PK, Wheels are the great drivers. And yes, as we think about running those as a portfolio, optimizing the financing on those and bringing in third parties, whether it's in SMAs on the production side, or even in many instances where we brought in investors to own the equity along with us, that's all part of the flywheel.

So certainly, we think that when we look at what's going on with our platforms and with bringing this integrated toolbox to -- solutions to companies, we think that gives us the confidence to take our numbers up from our 5-year plan. And so as Marc said, when we did our first Investor Day, it was $150 billion in debt by '26. We'll achieve that. But we've sort of now changed the definition of the equity and hybrid.

So in our mind, hitting those $200 billion-plus numbers, the driver really will be how we integrate those platforms. And again, how investors deal with us, whether it's an SMA, whether it's a commingle vehicle, whether it's owning part of the equity, it's all part of the same equation.

Operator

Thank you. That concludes the Q&A portion of today's call. I will return the floor to Noah Gunn for any additional or closing comments.

Noah Gunn
MD & Global Head of Investor Relations in New York

Great. Thanks, everyone, for your time and attention this morning. If you have any follow-up questions on anything we discussed on today's call, please feel free to follow up with us. And we look forward to speaking with you again next quarter.

Operator
Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines at this time or log off the webcast, and enjoy the rest of your day.