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Earnings Call

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Operator

Good morning, and welcome to Apollo Global Management's Second Quarter 2023 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 performance. 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 figures 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 solicitation of 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

Great. Thanks, Donna, and welcome again, everyone, to our call. We're really thankful for the opportunity to spend some time with you this morning.

Earlier, we published our earnings release and financial supplement on the Investor Relations portion of our website. Within these documents, you can see that we generated very solid results that included record quarterly fee-related earnings of $442 million, or $0.74 per share, and record quarterly normalized spread-related earnings of $874 million, or $1.47 per share.

Together, these two earnings streams totaled $1.3 billion in the second quarter, increasing more than 40% year-over-year, demonstrating the strong, resilient and fully-aligned growth characteristics of our asset management and retirement services businesses. Combined with principal investing income and other holdco items, we reported normalized adjusted net income of $1.1 billion, or $1.80 per share, up 60% year-over-year.

Joining me from our team to discuss our results in further detail are Marc Rowan, CEO; Jim Zelter, Co-President; and Martin Kelly, CFO. And we've received some feedback from some of you that we should attempt to shorten the length of our prepared remarks. So at the risk of making a false promise, Marc himself has ensured us that we'll be endeavoring to do that today.

So with that, I'll turn it over to Marc.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thanks, Noah, and we all can wish for certain things and hope that they come true.

In any event, as Noah said, it was truly a very, very strong quarter. Normalized SRE and FRE of $1.3 billion for the quarter, and we are on track to earn FRE and normalized SRE of $5 billion plus/minus for the year, which Martin will detail.

One thing worth calling out is just how exceptionally strong SRE has been. Just to put it in context, Athene has now grown or will grow 30% SRE 2 years in a row. And they actually have hit their 2026 financial target, as laid out in our Investor Day some 2 years ago, in just 2 years. Not only are they doing an exceptional job, but clearly, Jim and Grant and the team have exceptionally sandbagged everyone. And the business continues to be very strong.

In addition to financial results, we had record inflows for the quarter on an organic basis. We had some $43 billion of inflows, including $8 billion that closed shortly after the quarter end. This closing shortly after a quarter end is actually a feature of the alternatives business. Many of our institutional investors prefer to close on the first of the month and have something in another quarter from an allocation point of view rather than in the prior month. And for many of our retail, high net worth focused funds, they also close on the first of the month. So I expect that we will be a little more careful in giving guidance quarter-by-quarter to account for how this business actually operates.

From my point of view, and as Martin and we have discussed previously, we generated positive operating leverage and margin expansion this quarter, and we expect this to continue over the next couple of years as we benefit from the investments that we've made in people and facilities and in upgrading our business over the past few years.

In short, our strategic positioning is excellent and anchored by 3 really simple principles: one, purchase price matters; the second, excess return per unit of risk, that is what we do; and full alignment with our clients, both our institutional and our retail clients.

It actually feels pretty good. Having not chased the hot dot during an era of money printing and zero rates, our opportunity set is just different than that of our peer group. Apollo has momentum.

In terms of the business, let me start for the quarter with the equity business. In the equity business, this year has really marked the end of an era. So if I think about what happened over the prior decade, and perhaps longer than a decade, there were these incredible tailwinds in the equity business, tailwinds from money printing, pulling forward of demand, fiscal stimulus and certainly from zero rates. We now find ourselves in an absence of tailwinds. Rates are higher. Growth is slower. Globalization is in retreat. People will have to go back to investing in the old fashioned way. They'll actually have to be very good investors. They will need to produce alpha.

I believe that's what we've been doing. Demonstrated by the recent private equity results, the final close for Fund X in mid-July brought in capital just around $20 billion over a 12-month marketing period versus extending over -- versus continuing to market over an extended time line. The fund is now closed. Fund IX generated 36% gross IRRs, 24% net IRRs.

In the quarter, it's just a really interesting time in the private equity business between haves and have nots. Arconic and Univar, 2 very large financings which certainly came at a time that was challenging for the market, both executed better than expected, giving us increased confidence in the ability to get transactions we like done.

Let me move on from the equity business and talk about the 2 drivers of the quarter and what I expect to drive the rest of the year. First, private credit. As I've said previously, private credit, these are 2 words that actually mean nothing. Private credit can be investment grade; private credit can be CCC.

Barriers to entry in the private credit business are either quite low, anyone with a fund and a staff capable of evaluating investments can truly enter the private credit business, or barriers to entry can be extraordinarily high, and building a full ecosystem that allows you to serve the needs of your clients in a very sophisticated way. Think of the difference between a hotdog stand and a Michelin Star restaurant. Both are in the food business and both serve food. That is how we think about private credit and where people are positioned.

Financial markets, financial literacy around private credit has actually gotten quite sloppy. What is private credit? Well, if we start in the abstract, everything that is on a bank balance sheet is private credit. But most of the time, markets -- market pundits talk about private credit. They're talking about a very small sliver of a private credit universe that's focused on levered lending.

Don't get me wrong, we like the levered lending business. Levered lending is actually a terrific business right now. It will not always be a terrific business. It is a cyclical business with low barriers to entry, but one that, at the right point in time, can be very lucrative.

What we have tried to build is not a single fund, is not a single opportunity, we've tried to build an ecosystem. If I reflect on the past decade, we've invested some $8 billion, building 16 originating platforms. There are 4,000 people who work in these platforms, not Apollo employees, who are solely focused every single day on originating private credit.

And as you know, much, if not most of what they do is investment grade. That's important because the investment-grade market is at least 8x larger than the high-yield market and 8x larger than the levered lending market.

This is a great time for private credit. This is not a quarter that's a great time for private credit, this is a secular change. Not only do we have higher base rates and regulatory change and change in market dynamics, we are in the beginning of a secular shift in how credit is provided to businesses and a shift that I believe will continue to gather speed.

To be successful in this market, you need a recurring supply of unique origination. This quarter, we originated some $23 billion, with 50% of that from platforms. Jim Zelter will detail some of these transactions. But in addition to the names you would expect that are traditionally associated with private credit, AT&T, Air France and Vonovia, borrowers value certainty, scale and speed to execution.

In addition to origination, you need an integrated capital markets business. Because, after all, we want 25% of everything and 100% of nothing. Our ACS business, led by Craig Farr, has done an extraordinary job, extending our reach of private credit to clients and to non-clients. And in fact, this is among the greatest ways that we introduce the firm to people who are not yet clients of Apollo and show them what we're capable of.

This quarter, we raised some $7 billion of capital from third-party insurers, and we expect this to gather speed as the market continues to improve. For private credit, particularly investment grade, the way that consumers and businesses borrow is traditionally through the asset-backed market.

Asset-backed is, for the most part, private credit. This is a $20 trillion market, and one in which we have been playing for a very, very long time, more than $220 billion of volume to date, better than 200 relationships. We have currently more than $100 billion of AUM associated with ABF, $55 billion of which is third party. Most of what happens for us in ABF is investment grade, and it is a key driver of our insurance business for Athene and for our third-party insurance clients, and increasingly, for fixed income replacement for our traditional institutional clients.

One of the single most important factors in this market is that we are completely aligned with our client base. We own what they own, at the same time, at the same price. There is nothing that is more confidence inspiring than alignment.

Let me move on from private credit to talk a little bit about the job Athene did in the quarter. Athene's results are in part driven by the ability of Apollo to source attractive investment-grade credit, but also by the incredibly talented team that has been building Athene for the past 14 years. Normalized SRE for the quarter was $874 million and normalized net spread was 166 basis points, truly the widest I can remember.

$19 billion of organic inflows in the quarter, up more than 50% year-over-year, #1 annuity market share. We now have line of sight to more than $60 billion of organic inflows this year. We are leaving, by some estimates, between $10 billion and $20 billion of annual originations on the table. Truly, we have an opportunity now to be selective and to build recurring franchises.

We've made progress this quarter in Japan through our reinsurance business and elsewhere in Asia, and I believe the business at Athene is gathering speed. Although as I've cautioned in private in prior quarters, and as I'm sure Martin will detail, these are truly exceptionally good times, and we are beneficiaries of the large floating rate position that we have carried for more than a decade.

Also recall that our business is built at the top of the capital structure on a senior secured basis and we sleep better at night. Credit experience in the quarter was incredibly benign, less than 2 basis points, which I'm sure Martin will detail.

Surrenders or outflows also came in better than forecast. And if you recall from the chart we've included in this quarter as well as prior quarters as well as the education we've been doing, the primary driver of surrenders is not what happens at any point in time in interest rates. It is the timing of the expiration of programs that we put on 3 and 5 years ago, and for the most part, is highly predictable.

It is difficult to imagine going from start-up or new business to where Athene is today. Right now, we have not done an inorganic transaction for a number of years, but we are the beneficiary of 4 very diverse channels: retail, PRT, reinsurance and funding agreements. All 4 of those channels are dependent on a stable and high-quality credit rating and having an infrastructure and a scale and an operating expense ratio that allow you to lever the business.

We could not have built the business we have today inorganically in a high rate environment. We were fortunate in a low rate environment to have been able to purchase inorganic blocks at a time when their contract rates were above market rates; therefore, our risk of surrender was very low.

In contrast, in today's market, someone buying an inorganic block is actually buying a block where surrender charges and market value adjustments have degraded and is at much greater risk of a melting ice cube. In short, it is not a stable base on which to build the business, and will make it very difficult for people to achieve the kind of scale we have achieved.

Recall that we bought in Athene for some $11 billion at acquisition, and Athene will earn $3.1 billion plus/minus of normalized SRE for the fiscal year. In short, the team is doing an incredible job, and distribution and maturation in product has not yet even matured. There is more to come.

In an effort to keep on time, let me focus on one last topic which I know has been of interest to people. I really want to talk about the market environment, particularly the regulatory environment and the environment as it relates to our banking peers.

In short, we have never had such a collaborative dialogue with the banking system. We have gone from not only being a great customer, to a partner of the banking system, to a true collaborator. The shape of our business, particularly our willingness to do very large investment-grade transactions, has made us an indispensable partner, and I do mean partner, with the banking system.

While some talk about the dancing of this being a great time for private credit, I've noticed that there's actually been dancing on both sides, both on the bank and the private credit side, as most banks put in an extraordinarily good quarter and are on their way to an extraordinarily good year.

We are also very symbiotic. Recall that we want the asset, but do not want what the bank typically wants, which is the customer. The bank wants the customer and typically does not want most of or any of the asset.

If I step back, the U.S. financial system is the envy of the world. We raise 50% of the world's capital. And part of the reason we are the envy of the world is the structure of our system. Banks have their role and the investment marketplace has its role.

Our system has all types of participants, but the vast, vast majority of those participants borrow short and invest long or have short-term money. Think of an open-ended mutual fund, which has daily liquidity. Many hedge funds, quarterly liquidity. Banks, daily liquidity at least on deposits.

The ability to bring institutional investors, retirement systems and insurance companies who have long-dated liabilities or long-dated assets to this market make them ideal partners for the short-dated capital of the banking system and the open-ended mutual funds.

In short, long-term locked-in liabilities are a source of stability and somewhat countercyclical for our financial system. It does not matter whether they are in funds which are themselves very stable or they are on retirement services balance sheet.

Totality of the market from the investor side does no maturity transformation, has no access to the Fed window, does not benefit from U.S. government guarantee. And in our case, if you look at the retirement services balance sheet, we hold more Tier 1 capital and more Tier 2 capital than the vast majority of the top 10 banks in the U.S.

We do cash flow testing and scenario testing and provide a granularity to our portfolio that very few institutions, if any, can match. Our balance sheet is much more investment grade than the typical depository institution.

In short, our model is highly complementary to the banking system. We have never been more collaborative, and I expect this collaboration to increase as regulatory change gathers pace, both in the U.S., Europe and even the beginnings of regulatory change in Asia.

As we're nearing the end of summer, the team is in great shape and focused on executing the plan. We are sticking with no new toys. The upside from simply executing what's in front of us is incredibly strong.

And with that, I'll turn it over to Jim.

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

Thanks, Marc. Marc did a great job outlining our competitive positioning and our vision. And now I'll spend a few minutes translating how some of these important themes are playing throughout our firm with the investment environment, our investment performance and fundraising.

It's clear to us, and like many of you as well, the demand for private credit solutions has risen significantly as higher cost of capital have reduced the availability of traditional financing sources. We believe we're uniquely positioned to address this need for a few reasons: the scale of our capital resources, the speed of execution, and the sophistication and creativity of our investment underwriting.

We are continuing to diligently build the largest alternative credit business in the industry, and our success to date is attributable to the expansive capabilities, or what we call the Apollo toolbox. From corporate to sponsors and everything else in between, we can flexibly serve clients that need capital in a collaborative and bespoke manner. Across Apollo, we are helping healthy and growing companies who are hamstrung by a limited open public market.

The second quarter was a prime example of this, a period that started with the fallout from the regional bank crisis and ended with the markets feeling a bit more accommodating. As you might expect, we were particularly active and deployed nearly $35 billion of capital across our platform during the quarter. Much of this activity was driven by the yield business across our various sourcing channels, including financing solutions to corporates, which we call high-grade alpha; our origination platforms; as well as more traditional originations through strategies such as large cap direct lending or leveraged lending, CRE debt and a variety of structured credit CLO originations.

In an extremely active quarter, one of the signature financing solutions we provided was for a company, Wolfspeed, a silicon carbide materials and device manufacturer. We led an investment group that provided a $1.25 billion secured note to the company as they undertook a significant growth initiative to meet accelerating demand. In this case, we worked with Wolfspeed to structure a non-dilutive and flexible credit solution which resulted in a unique win-win for the company's debt and equity investors.

In another example of capabilities that happened more recently, we partnered with our client and our partner, Air France-KLM, one of the world's leading airlines. Following the execution of 2 successful innovative equity capital transactions with Air France, we announced last week that we have entered into an exclusive discussion to provide a EUR 1.5 billion capital solution through funds we manage and insurance affiliates to Air France-KLM's Flying Blue loyalty program.

Flying Blue is one of Europe's leading loyalty programs, and this transaction would further bolster the company's already strong capital position. We are proud to say that this would be the third of a unique series of capital solutions to Air France-KLM, increasing our total capital support to the company to more than EUR 2.5 billion over the last 12 months.

Amid our expanding opportunity set to originate investment-grade assets, debt origination activity across our 16 platforms remains strong. Notably, the acquisition of ATLAS SP Partners, the former CS business, the newest and largest asset-backed financing platform in our portfolio, is now fully closed, with both client and employee retention rates exceeding our expectations. ATLAS has been extremely active in the market, executing over 30 securitizations since March and has substantial near-term pipeline. Some of the other larger platforms, namely MidCap and Wheels, are writing business at attractive spreads and generating ROEs in the mid- to high teens range.

While we've been actively deploying capital, we continue to prioritize generating excess return per unit of risk. Investment performance remained strong and consistent in the quarter. Marc touched on the equity business, and I'd like to add that our direct origination, corporate credit and structured credit strategies portfolios appreciated 4%, 3% and 2%, respectively, in the second quarter, with each category outperforming indexes we benchmark in the same period.

Performance across hybrid strategies also have been solid, with hybrid value and our more opportunistic credit strategies each returning in excess of 4% for the quarter. Through a period of weaker public market performance last year and some instability in the first half of the year, driving strong investment performance over the past year has not been easy. Through that lens, it's worth highlighting a few strategies in particular. ADS, our nontraded BDC we manage; Redding Ridge, our CLO originator; Accord+, our multi-asset opportunistic credit offering; and Structured Credit Recovery Fund IV have all outperformed relevant indexes over the last 12 months.

Turning our focus to fundraising. We generated a record organic inflows of $35 billion, driven by strong momentum at Athene as well as a third-party asset management business. Across third party, we raised $15 billion in the specific quarter, with an additional $8 billion slipping into the first few weeks of this current quarter.

These -- the investments we made over the last 24 months to expand into adjacencies and white space opportunities, such as secondaries and clean transition, and ones where we believe we have a strategic edge, such as third-party insurance and global wealth, have begun to pay off. Some of the areas where we've seen recent momentum include third-party insurance, where we've developed a comprehensive client coverage network to ensure coordination across all parts of the firm, and established a curated solution set for this fast-growing client type.

We think our expertise in managing retirement service balance sheets on both the asset and liability side is a meaningful differentiator in this market, and we're continuing to be very bullish on the long-term global growth opportunities in this business.

Next is our sidecars initiative, where we raised over $4 billion across 4 sidecars so far this year. And sidecars enable institutional investors to invest alongside various investment strategies, mostly credit related, with greater scale and flexibility than they would otherwise achieve in a commingled fund. This type of structure is growing in trend and a great way to partner with more sophisticated investors. We have a strong pipeline in the sidecar opportunities across the global institutional investor base for the remainder of '23, supported with a dialogue of over 60 investors.

And finally, capital raise from individual investors continues to be a strategic priority. Through the substantial investment we've made in the new product creation and distribution expansion, we've built a diverse global wealth platform by asset class, product structure, distribution channel and geographic reach, all of which have helped migrate recent market-driven headwinds.

We're focused on continuing to broaden our retail-focused product suite, and continue to expect launching 1 to 2 products each quarter into 2024. In terms of distribution expansion, we've made some notable progress for Apollo-aligned alternatives, AAA specifically, which is now offered on 5 bank platforms and has additional global U.S. and non-U.S. banks as well as RIAs and other wealth channels in the second half of the year.

We've also seen the monthly inflows into Apollo debt solutions, I mentioned our non-traded credit BDC we manage, ramp following the strong investment performance that has occurred over the last 24 months. All this progress makes us confident in our ability to raise more global wealth capital this year versus last, so ahead of budget.

A final note on our capital solutions business, ACS, with fee revenue generation has been strong and stable over the last several quarters. This business, which is part of the flywheel, is clicking for a variety of reasons, including greater demand for bespoke financing solutions, increasing integration and deployment across activity across the platform, and more organized and effective coverage of a variety of corporate clients.

Through the first half of this year, we've syndicated over $6 billion across 100-plus institutional investors and are currently in the market with in excess of 30 transactions. As a bonus, we're reaching many investors who are new to the Apollo franchise through this indication, as many of our syndication partners have never invested in Apollo Fund prior. ACS has really been the integral part of our flywheel, and I want to emphasize one of Marc's themes from earlier is one of the ways we partner with banks across a broader financial landscape.

With that, I'll turn it over to Martin to go through our financial results.

Martin Bernard Kelly
CFO & Partner

Great. Thanks, Jim. I'll provide a bit more context on our financial results and outlook before we open it up for questions.

So as Marc and Jim have both referenced, our second quarter results completed a very strong first half and position us well to meet or exceed our 2023 financial targets. We've discussed how this year is one of execution, and you're seeing these efforts materialize in a material -- in a meaningful way.

In the Asset Management segment, FRE revenues for the first half of the year increased by 26% over the comparable period, FRE costs by 22% and overall FRE by 29%. The FRE margin increased by over 100 basis points as a consequence.

In Retirement Services, Athene's business continues to exceed all our estimates, with normalized SRE year-to-date growing in excess of 50% over the comparable period, aided by strong organic growth trends and an expanding net investment spread.

Focusing on the second quarter, and starting with our Asset Management business, our record quarterly FRE was anchored by fee-related revenue growth of approximately 25% quarter-over-quarter. Within that, management fees increased almost 20% and capital solutions fees remained very strong and are tracking well ahead of our initial expectations for the full year.

Total fee-related expenses increased only modestly on a sequential basis, reflecting our commitment to disciplined expense management this year. Slowing growth in the comp expense line reflects a declining pace of hiring, with just over 100 net new Apollo employees added in the first half of the year, some 40% of the headcount growth in the same period last year. The combination of strong revenue growth and decelerating cost growth drove more than 200 basis points of FRE margin expansion quarter-over-quarter, bringing our FRE margin to 55% in the first half of the year.

Moving to Retirement Services. Our record normalized SRE of $874 million increased 8% quarter-over-quarter, resulting in 166 basis points of normalized net spread. On a sequential basis, normalized net spread increased by 5 basis points due to higher floating rate income on the margin deployment spreads and yields on cash balances, net of higher new business and financing costs. Earnings accretion from a higher interest rate environment has exceeded our initial projections in the first 2 quarters of this year.

Looking forward, we expect normalized SRE in the second half of the year to approximate the amount we earned in the first half, reflecting 4 primary components: one, continued strong organic growth at a $60 billion-plus annual pace; two, current interest rate conditions, both interest rate levels and curve shape; three, ADIP, the strategic third-party capital -- sidecar capital that we manage, supporting approximately 40% of total Athene inflows this year, including buying down origination from the first half; and four, a transaction with Venerable which closed in July, where Venerable recaptured approximately $3 billion of older payout annuities. This transaction will be reflected as an outflow in the third quarter and will release capital for deployment into the strong new business environment. In connection with this transaction, we will recognize a benefit within SRE in the order of $50 million that we will treat as a onetime notable item and exclude from normalized SRE.

Corresponding to this SRE profile, we expect normalized net spread to range between 160 and 165 basis points in the third and fourth quarters. This spread and earnings profile would result in approximately 30% year-over-year growth in normalized SRE in 2023.

Assuming the current level and shape of the forward interest rate curve holds and ADIP supports a full pro rata share of Athene's incremental growth, we currently expect normalized SRE growth in 2024 to be in line with our longer-term guidance of low double-digit annualized growth.

As it relates to credit quality, Athene continues to experience a very low level of asset impairments across its portfolio, which aligns with its focus and high concentration in senior secured, top of the capital structure credit.

Since the beginning of 2020, a period that has included COVID-19, the Russia-Ukraine war, the regional bank crisis and the significant move higher in rates, Athene has incurred average annualized impairments of only 11 basis points, including just 2 basis points annualized in the most recent quarter, which is consistent with its long-term average of 9 basis points.

Overall, we believe Athene's credit profile remains very strong and is well positioned to withstand a more difficult credit backdrop if one were to emerge.

In terms of capital allocation, we continue to assess how to best deploy free cash flow on a regular basis based on its highest returning use for shareholders. So far this year, we've allocated more capital towards share repurchases and strategic investments, given the long-term value we see in our stock price as well as the abundance of organic growth initiatives we have highlighted, which create revenue growth without the need for capital. We've deployed over $230 million of capital towards opportunistic share repurchases in the first half of 2023, in addition to immunizing employee stock issuance, with the resulting reduction in our share count over the past 2 quarters from 590 million to 595 million shares.

And lastly, in response to some index eligibility questions we've received, it's worth noting that we reported positive GAAP earnings in the second quarter as well as cumulatively over the last 4 quarters. This is the final S&P index eligibility criteria that needs to be satisfied.

In terms of market taxonomy, Apollo is included within the financial services industry group according to the global industry classification standard. Reflecting our differentiated business mix, this classification places us within a geographically unique position relative to our direct alternative asset management peers in an underweight sector relative to the total market index.

Combined with our leading governance characteristics, shareholder rates, earnings growth and long-term stock outperformance relative to the broader market, we believe that Apollo is well suited to be a core holding within investor portfolios.
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

Just a quickie on the originations. I mean you have 16 for a reason, and not all of them are going to be clicking at once, but you had a full quarter of ATLAS. We're hanging in the $100 billion of origination range on an annualized basis. What do you think takes us to the 150? Can you do it with the current suite of platforms you have? Is this just an environment thing? Just curious on your thoughts there.

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

Thanks, Glenn. I think it's a combination of both. I think there is -- all 16, we are happy with the progress. As you know, we really have not leaned into the consumer. We've really leaned into much more of the corporate. I think there's a secular opportunity. But I think the 16, we feel, as we integrate them over time, consistent risk, reporting, funding, financing and the holistic approach, we still very -- we still feel comfortable that the 5-year objective of the 150, that the 16 in our stable today, we think that they have the organic and secular growth. We don't really feel we need to add a lot more.

There may be some consolidation in a few of those for optimization, but we feel very comfortable that we have the strategic lead and the strategic organization from which to get to our 5-year goals with what we've put together today.

Operator

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

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

So the supply of investment opportunities is clearly rising from the banking crisis. We talked a little bit about that last quarter. And clearly, there's more evidence of that this quarter. Can you talk a little more about the demand for these type of investment strategies, specifically for, I guess, private investment-grade credit?

Historically, that's largely been taken out by insurance clients. I think, Marc, you highlighted that there's an opportunity to expand beyond noninsurance client base. So I was wondering if you could elaborate a little bit more on that? And how that informs your go-forward third-party fundraising strategy?

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

Yes. Let me take a deep dive, and maybe Marc has a couple of comments, Al. As Marc described, history, private credit, it's a big word, big concept, it's been narrowly executed with leverage lending. When you see what's going on with the banks and the funding crisis, which became then really a profitability challenge, there's really two large areas of opportunity. One is there are clearly assets that do not belong today on their balance sheet.

Look at the dispositions that PacWest made. We did a secured financing. It was literally AAA risk at almost 10%. A few other folks bought portfolios. So the selling of portfolios is one activity, and that will continue over the next several years as they optimize our balance sheets.

The larger opportunity is the secular business organization. There are lines of business where they are in, where they have been the day-to-day originator and purveyor of credit to companies. And those are businesses, because their cost of capital change and has changed and their liquidity and the regulatory changes, that thus do not make sense as an operating business.

So you have a business sector, which is origination, you have a disposition. We're going to be active in both of those, and there's partnerships that we are in and that we'll create on both sides of the ledger.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Alex, just to complete the thought, insurance companies have, for a very long time, been buyers of private placements, but they've done it in a very, very narrow way. If you're in the retirement services business today, or more broadly, in the insurance business, and your opportunity set is solely investment-grade corporates, you have no competitive edge in the investment landscape. You are looking for a solution, and that solution is beyond what, I'll call, the traditional private placement market. But the insurance market is growing. It's well acceptance of investment-grade private credit, and this is about execution.

The other interesting opportunity is, we, as an industry, have basically spent the last 35 years serving the small alternatives bucket of our large institutional clients. We have an opportunity at the investment-grade side to serve the fixed income bucket of our large institutional clients. This is in the very early stages.

And it's always interesting to go in and see these accounts. First question we ask, is a single A-rated private credit an alternative? They haven't been confronted with that question today. If they think it's an alternative, they're not right for the opportunity because then they're comparing it against things that are in 20% rates of return. If they think it is not an alternative and they think it is just fixed income, then it is offering 200 to 300 basis points above their fixed income. We are in the early days of an education process, and I believe that the market for private investment grade could be as large outside the insurance industry as it is inside the insurance industry.

Operator

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

Michael Patrick Davitt
Autonomous Research US LP

The Q-over-Q change in the kind of retail annuity sales channel was, I think, worse than many expected, given what we've seen in others in the marketplace. And you mentioned you're leaving some business on the table for various reasons. So do you think this is a share loss issue? Or is there something else you can point to that explains the divergence with what we've seen from some of the other annuity guys?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

This is a high-quality problem, Patrick. We have, as I mentioned, 4 channels. We have the retail channel, we have the PRT channel, we have the reinsurance channel and we have the funding agreement channel, all of which are organic. And one could also look at reinsurance as being onshore and then offshore, given the progress we're making in Japan and Asia.

We, therefore, make choices about business. We thought we would do substantially more business this year than last year. Recall that last year was some $48 billion of organic inflows. We're now confirming and essentially provide a guidance that we will do north of $60 billion. And I believe that we are leaving between $10 billion and $20 billion on the table.

But in the context of the budget that we put out internally, some $60 billion, we have the luxury of choosing the highest quality business, the right business mix, the right profile of liabilities and the right net spread. So most of the business that was left on the table in the quarter was, I'll call, transactional. Transactional does not mean bad, it just means we elected to do other business versus transactional business, and MYGAs are primarily transactional business. Anytime we want to add MYGAs, we can add MYGAs. We chose not to for the quarter given that we were already doing $19 billion of organic inflows.

Operator

The next question is coming from Michael Brown of KBW.

Michael C. Brown
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. So I appreciate the updates on the updated views on the normalized SREs. As we look out to 2024, obviously, the activity has been really robust across the platform. I guess kind of following up on that retail channel question, how do you expect activity to hold up as you get into the kind of rate cutting cycle that the forward curve does expect?

I understand that's baked into your guidance today, but is it fair to assume that the demand stays high? And then obviously, the PRT business has been picking up. And just interested to hear your thoughts about how the opportunity there could evolve.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Look, it is clear to us that consumers prefer higher rates to lower rates. Consumers have not, particularly retirees, have not had good options to finance their retirement. Now they do, and you're seeing it across the board in the annuity market.

To think that annuities are not impacted by interest rates is just to ignore the obvious. What's happening to us is actually quite interesting. We are growing in a growing annuity market, but we're also in the midst of growing our distribution. Each of the last few years, we have added immense new distribution banking partners. We will add the largest or second largest provider of annuities in this country at some point this -- I think we -- this quarter, and that will not mature until a year from now. And then we have 2 or 3 other very large providers coming on.

So I do think the overall market share for retail will be impacted by rates if, in fact, rates go down. That doesn't mean a negative or substantially negative, but it will, on the margin, be a negative force. Having said that, our distribution is still building so quickly that I doubt we will see any real decline in retail.

More interesting to me is also the diversity of channels. PRT is gathering speed. High rates or higher rates are really causing all plans who are close to fully funded status to consider derisking. And even those that were in equity are thinking of taking chips off the table given the very shallow rally, let's say, in equities, so I expect PRT to be very, very active over the next few years, U.S. and overseas.

Japan, as I've mentioned on previous quarters, is exactly where we want it to be. It's on track. And I think reinsurance is also going to be a very important part of our business.

So in summary, I think we're leaving business on the table this year, and I am optimistic that, notwithstanding the forward curve, we will see continued increases in business.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Maybe just circling back to private wealth. I was hoping you could elaborate a bit more on the traction that you're seeing across the products in the private wealth channel and the distribution build-out, as well as how you're thinking about the pipeline of strategies to bring to the market next. Would also be curious, any sort of lessons learned that you take away from some of the earlier products that you have brought into the private wealth channel?

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

Yes, Michael, let me give you a little bit of a tour. I mean it's been 36 months, plus or minus, since we really laid out the objectives. And certainly, in terms of products, I think bucketing them into three areas: the existing flagship products that we had and creating the right types of vehicles and feeders for the large wires and others. Then there was a second, obviously, creating a variety of yield products, whether private BDC and private REIT and others. But again, not only for the traditional global wealth channels, Morgan Stanley and BofA, et cetera, but also the independent IBD channels, the RIA channels.

And then the third big bucket is newer products, like our AAA product, which we are very excited with the momentum. So I think we feel we have the product set, not only in the U.S., but globally. But I think the lessons really are, I mean certainly, we want to when we expect and the clients expect strong investment performance like we've done for 33 years. But the use of technology, the use of education, Apollo Academy, in particular, those are all -- and the ability to service, those are all the full service products that our partners are expecting out of us.

We see the puck going in, global wealth having a tremendous impact on our business. It's a big secular train -- a big secular trend. It really parallels what we see going on in private credit. And one, if you look at the -- take a broad step back around the globe in terms of demographics, in terms of savers, in terms of vehicles, we think there's a massive amount of white space.

We have been broadly embraced. The market wants alternatives and providers as well as products. So I think the early lessons are, it's not just about performance, it's that you need to bring all your skills to the marketplace. You cannot underestimate the service needs, the technology needs and the education needs. So it's really a full service effort across our firm. And everything we've done, we've had to replicate and -- but huge opportunity globally.

Operator

The next question is coming from Rufus Hone of BMO Capital Markets.

Rufus Hone
BMO Capital Markets Equity Research

I wanted to get your thoughts around the potential longer-term outlook for the normalized net spread. You're expecting it to only trend down slightly in the second half of the year. I guess I'm most curious around where exactly you think the net spread can settle out longer term. And whether you can offset potential spread compression with higher percentage of originations from platforms through being more selective around new business and the back book running off at lower net spreads. Any detail there would be great.

Martin Bernard Kelly
CFO & Partner

So Rufus, it's Martin. We -- I guess we distill the spread conversation into normalized top line spread, which is 160 basis points, plus or minus. And then that pulls through after costs and financing and so on to 115 basis points.

And so we've clearly seen some benefit in there from rates as well as higher growth and higher at the margin deployment. We do -- we target business which, at the margin, drives a net spread in the order of 115 basis points. We have a question which we're addressing internally now, which is the rate exposure and how do we hedge it, which we'll walk through an update on.

But we look at net spread, so that's what we focus on. And given the growth profile and given the contribution from ADIP and given where we think we can deploy incremental growth, that also combines to a dollar guidance number of low double digit, which is what we're focused on next year and thereafter.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Next year, we'll also include the full benefit or full detriment, depending on your point of view, of ADIP being fully ramped and taking its full share. So more of the business will -- more of the SRE will go to ADIP on a comparable basis in '24 versus '23, and all that is factored into Martin's guidance.

Operator

The next question is coming from Benjamin Budish of Barclays.

Benjamin Elliot Budish
Barclays Bank PLC, Research Division

I wanted to ask, you mentioned some white space opportunities earlier in the prepared remarks, and it's been a hot summer. I'm just thinking about the clean energy transition strategy. And I was wondering if you can kind of give us a refresh of like where you are, but more importantly, how you think that can evolve over the next, say, like 5 to 10 years as a potential strategy that could really scale in the way that some of your other like major drawdown fund strategies have scaled?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thanks for the question. It's Marc. Look, we look at this, and we and through our peer group and the banking system, quite frankly, we're going to be financing energy transition movements towards sustainability for the rest of our professional careers.

The scale of money required is like nothing else we've ever seen. And so we step back and we think about what that is. What kind of money? Is it equity? Is it debt? Is it hybrid? When we look at the market, most of what we see is debt and hybrid.

Our goal is to build the leading financier of energy transition sustainability worldwide by having put together a perpetual evergreen fund focused on doing that. In addition, we will raise bespoke, drawdown equity funds from time to time, but those will be, in my opinion, smaller than the opportunity that we see.

We announced, either last quarter or at the beginning of the year, that we had made initial funding and initial capitalization with a few billion dollars of seed capital. That capital is getting deployed quite rapidly. Our pipeline is growing. And I expect this vehicle to have the potential to be among the largest vehicles on our platform.

But let's get the money invested that we have first. Let's show investors that we've done a good job with it. Let's really define the types of opportunities and the return requirements, but I am equally optimistic that there's a great opportunity here, but it's a debt and hybrid opportunity primarily.

Operator

The next question is coming from Adam Beatty of UBS.

Adam Quincy Beatty
UBS Investment Bank, Research Division

I noticed the deal with Yellow and wanted to broaden that out into maybe potential opportunity in restructuring and distressed assets and situations, which seems like it could be a sweet spot for Apollo.

Firstly, in terms of the backdrop, so far, the level of corporate distress has been maybe a little bit more benign than folks expected. So wondering what you're seeing and kind of the near-term outlook for that? And then maybe some details on how Apollo is positioned and how much you might want to lean into that opportunity?

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

Well, I mean I would just start off by saying we agree. It's been -- the credit markets have been overall benign. And when we see where the economy is going in terms of cost of capital, our view is you are going to see more companies having a bit of a challenge in '24 and '25, especially with the maturity wall.

But as we've talked about in this call, so much of our business right now, the lion's share of our business, vast majority are to investment-grade counterparties, and we feel very good about the health and robust nature of those companies.

Certainly, we have roots and history in our hybrid and our equity business of doing things as the market turns more challenging. We expect to be at the top of the heap in doing that, but in a measured, thoughtful way like we've done for 30 years.

Operator

At this time, I'd like to turn the floor back over to Mr. Gunn for closing comments.

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

Thanks very much for your help this morning, Donna, and thanks to everyone else for joining and your continued interest in our business. If you have any follow-up questions regarding anything discussed on today's call, please feel free to reach out to us, and we look forward to speaking with you again next quarter. Enjoy the rest of your summer.

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