S&P Global
Market Intelligence

# Apollo Global Management, Inc. NYSE:APO

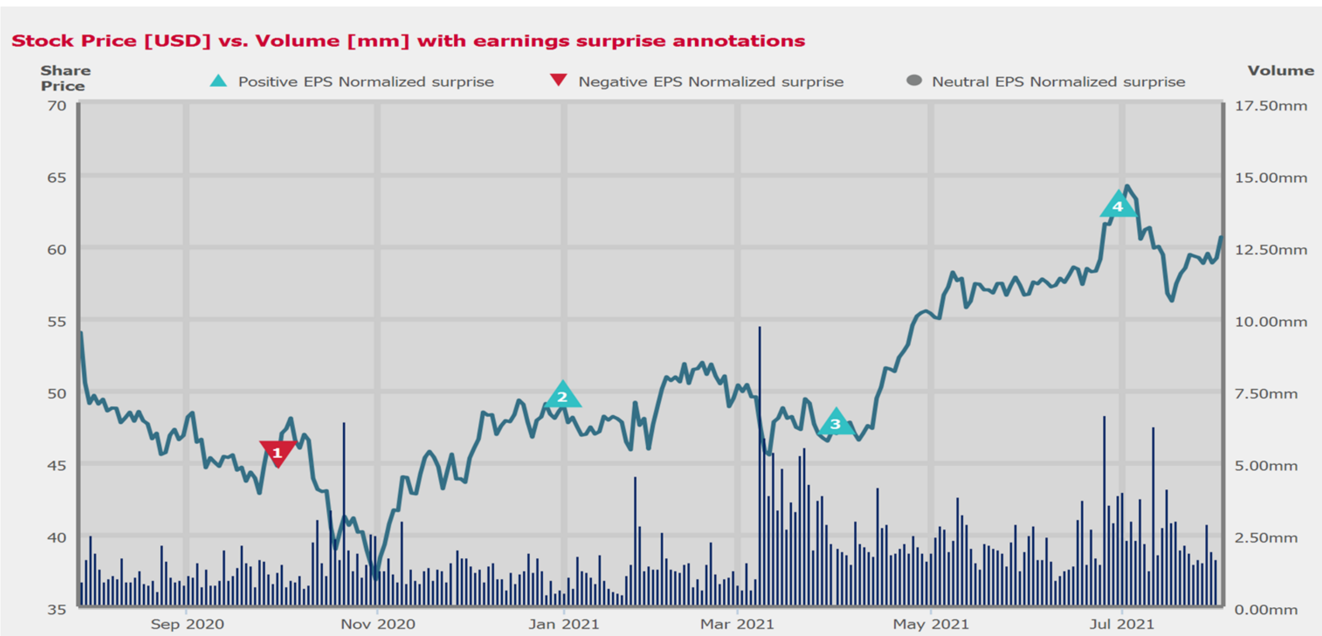
# FQ2 2021 Earnings Call Transcripts

## Wednesday, August 04, 2021 12:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2021- | | | -FQ3 2021- | -FY 2021- | -FY 2022- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.71 | 1.14 | ▲60.56 | 0.74 | 2.96 | NA |
| **Revenue (mm)** | 526.68 | 553.55 | ▲5.10 | 544.97 | 2121.24 | NA |

Currency: USD
Consensus as of Aug-02-2021 3:51 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2020** | 0.49 | 0.47 | ▼1 (4.08 %) |
| **FQ4 2020** | 0.50 | 0.72 | ▲2 44.00 % |
| **FQ1 2021** | 0.58 | 0.66 | ▲3 13.79 % |
| **FQ2 2021** | 0.71 | 1.14 | ▲4 60.56 % |

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# Call Participants

## EXECUTIVES

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

**Martin Bernard Kelly**
*CFO & Co-COO*

**Peter Mintzberg**
*Head of Investor Relations*

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*UBS Investment Bank, Research Division*

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*Goldman Sachs Group, Inc., Research Division*

**Brian J. Mckenna**
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**Gerald Edward O'Hara**
*Jefferies LLC, Research Division*

**Glenn Paul Schorr**
*Evercore ISI Institutional Equities, Research Division*

**Michael J. Cyprys**
*Morgan Stanley, Research Division*

**Patrick Davitt**
*Autonomous Research LLP*

**Robert Andrew Lee**
*Keefe, Bruyette, & Woods, Inc., Research Division*

**William Raymond Katz**
*Citigroup Inc., Research Division*

# Presentation

**Operator**

Good morning, and welcome to Apollo Global Management's Second Quarter 2021 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 a solicitation of an offer to purchase an interest in any Apollo fund.

I would now like to turn the call over to Peter Mintzberg, Head of Investor Relations.

**Peter Mintzberg**
*Head of Investor Relations*

Thanks, operator. Welcome to our second quarter 2021 earnings call. Joining me this morning are Marc Rowan, CEO and Co-Founder; Jim Zelter, Co-President; and Martin Kelly, CFO and Co-COO.

I would like to turn it over to Marc to kick up our comments for today.

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Thanks, Peter. Good morning to all. Pleasure to be here.

Q2 '21 was a particularly strong quarter for Apollo. Business, as you saw from our results, is performing well across all metrics: record quarterly FRE of $0.68 a share; the highest DE since 2013 of $1.14 per share; strong performance across the PE portfolio, up 9.5%; Credit, up 2.6%.

The numbers speak for themselves. And Jim and Martin, I don't want to steal their thunder, they will review specifics of the quarter with you. In terms of other corporate housekeeping, our merger timing with Athene is on track. We expect that to close in January of '22.

During the quarter, we continued to make progress across the communicated governance and cultural enhancements. We welcome David Simon to our Board. As you know, we are on track to simplify our voting structure in connection with the merger that again will happen in January of '22.

For those who didn't see it, we recently published our 12th edition of our annual ESG report, detailing how we take a holistic approach across all of the communities we operate in and how important this is to our franchise.

We also announced during the quarter our commitment to Alt finance, an important initiative designed to diversify the alternative industry and expand opportunity to historically black colleges and universities. Additionally, during the quarter, the key person clauses in our Private Equity business have been satisfactorily approved and addressed.

Having gotten through the housekeeping, let me do, as I often do on these calls, take a step back and look at the big picture. The demand for our end product, excess return, remains incredibly strong. Drivers of this are persistently low rates; a growing retirement market, both for retail and institutional; importantly, the disappearance of spread in almost any form in public markets; and the democratization of access to alternative credit and equity across other channels than historically have been available.

We have positioned the firm. And the way we go to market is our ability to generate excess return, alpha, at all points across the risk/reward spectrum. We view this as our competitive advantage. We view this as our rationale. We are in the alpha generation business rather than the collection of AUM for the purpose of collecting AUM.

Across our opportunistic franchise and our hybrid franchise, we approach this in a contrarian value-oriented mentality with a proven track record over a variety of market cycles over 31 years. And the results, as you've seen previously, are spectacular.

In yield, the largest of our segments, this is a fixed income replacement business. This is not an opportunistic credit business. Our goal in our yield segment is to produce 150 to 200 basis points of excess return over the equivalent CUSIP across the capital structure. We want to get paid in our yield business for illiquidity and complexity and origination, not for taking additional credit risk or assuming other risks that we do not intend.

Again, stepping back. As we've said previously, in the broadest terms, over the next 5 years, I expect our yield business to double, and I expect our opportunistic and our hybrid business to be 50% larger. I believe this will take place without any significant acquisitions in our asset management segment. Although, as you will see and Martin will address, we have ample capital to accelerate our growth if we find interesting opportunities.

Last year, we added 300 people to our 1,300-person base. This year, we will add between 300 and 400 people. And I am confident that we will end the year positioned to support and accelerate growth into 2022.

I don't want to take too much away from strategy, but I will step back and now talk a little bit about strategy. As you know, we are fortunate to be in a growth business. Almost every day, the business gets better. The trends in the business are overwhelmingly favorable. And we look forward to providing you an in-depth perspective on our business and our go-forward strategy at an Investor Day, which we will announce -- which we expect to take place in the month of October.

In advance of Investor Day, I want to touch on a couple of building blocks which I've mentioned previously. In order for us to double the yield business and increase the opportunistic and hybrid business by 50%, we need to do a couple of things. First and foremost is to expand our capacity to generate investments, origination. Second is to strengthen our distribution capabilities, particularly in our hybrid and opportunistic segments.

And third and a relatively new area for us to touch on, but one that consumes a lot of our time and mind share, is to prepare the company for the innovation and change that is taking place across the financial services landscape. Make no mistake, the innovations we are seeing in fintech, which have taken place across trading markets and other types of markets, are coming to alternative finance. We view this as a significant opportunity rather than a threat as I believe we are well prepared for it. And I believe our industry will, given that it moves relatively quickly, will be well positioned to take advantage of this.

Let me start by a review of origination. A lot of what I read, particularly in the analyst commentary and even ourselves, we talk about the permanent nature of our capital, so-called perpetual capital, I think of origination as perpetual asset origination. We want each year not to have to start from 0. We want to be able to count on recurring asset origination opportunities across our yield business because the demand for yield product is going up, and 100% of what we originate has a home.

This quarter, we made significant progress in the origination. We announced a significant relationship with Victory Park, which will give us access on a senior basis to the growth in technology lending space. And we announced the acquisition of Foundation mortgage, a U.K.-based mortgage lender. You should expect to see us make additional announcements with respect to our origination franchises over the remainder of the quarter.

We are, and the industry is, short origination. The capacity to originate, the expansion of our capacity to originate is key to our growth, particularly across our yield business. As it relates to these alternative distribution channels, again, significant progress was made during the quarter. We expect to have a fully ramped-up retail distribution business in place for the launch of Fund X as well as certain credit products toward the end of this year. And we expect retail to be a significant part of our go-forward strategy, which I know Jim will spend some time on in his remarks.

Let me hit on this other topic of innovation and change coming to our landscape. Apollo, one of our key strengths is in financial services, not just in the growth of our retirement services businesses, but in banking, in lending, in origination. Our business, as I said, is evolving. And we, like our peers, are ourselves a large financial institution.

Changes are coming to the way products are distributed. Changes are way -- coming to the way we securitize and the way markets function. And changes are coming to the way we originate assets. All of these things, as I said, we welcome. I believe this plays toward our strength rather than something that we should be concerned about.

During the quarter, we announced 2 significant ventures: one with Motive, which is a strategic investment to help position us at the forefront of fintech and technological innovation; and the second with Figure, which is a strategic collaboration to implement blockchain across the investment life cycle, particularly focused on securitization. These are not pie in the sky. These are real, tangible things that will have immediate cost benefits, data collection benefits and other benefits to our business.

Away from the 3 things I mentioned, a lot of interesting opportunities during the quarter. You will hear, and I will steal a little bit of Athene's thunder, there is a robust stream of growth in retirement services across the platform. This year, we expect to originate at Athene north of $30 billion on an organic basis. And if trends continue, it could be as much as $35 billion.

Further, we made a significant minority investment joining Athene in taking a stake in Challenger. Challenger looks an awful lot like Apollo and Athene but in a fast-growing and really interesting Australian market. They are both an originator of assets as well as the largest provider of annuity product in the Australian market.

Before I turn it to Jim and to Martin, I just want to make it clear, there is just incredible momentum across the platform. This is internal and this is external. We are laying the groundwork for our first and exciting Investor Day, but also looking very much forward to completing the merger with Athene beginning of '22 and a very strong '22. We are seeing the tangible benefits of the cultural initiatives we put in place. Our workforce is engaged, excited and wants to be back in the office.

With that, it's my pleasure to turn the call over to my partner, Jim Zelter.

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

Thanks, Marc, and thank you all for joining us this morning. I want to echo Marc's sentiment, we continue to deliver strong results across all key metrics, and we expect the momentum to continue and build as we make tangible progress on our growth-focused agenda. Strategic growth is at the forefront of everything we do, but we are still maintaining a strong focus on execution as our quarterly results demonstrate.

As Marc highlighted, overall investment performance remained strong with the PE portfolio up 9.5% in the quarter and the Credit portfolio is up 2.6%. In Private Equity, Fund IX is leading the way with exceptional performance, driving a gross IRR of 49% and 28% net with a gross MOIC of 1.5x.

In Credit, with spreads tight, we have been moving up in credit quality and finding returns through superior asset selection and origination. We have seen particularly strong performance out of Accord IV with appreciation 20% through the first half of the year, including 8% in the second quarter.

Elsewhere within the opportunistic side of the business, our inaugural Hybrid Value Fund is delivering strong performance with a gross IRR of 29% and 23% net.

Moving to our deployment results, our ability to find attractive investment opportunities even during periods of elevated valuations has proven both critical and fruitful. Total deployment across the platform of $28 billion was a quarterly record.

In our Private Equity business, our drawdown funds invested $5 billion and have additional commitments to invest a further $6 billion as of quarter end, including Fund IX investments in Yahoo! and EmployBridge.

Yesterday, our Private Equity business announced a $7.5 billion carve-out of Lumen's ILEC business across 20 states with a strategy to bring faster, more reliable Internet service to underserved markets and accelerate upgrades to fiber connectivity. This draws on our telecom and infrastructure expertise. And we have a management team in place, which helped build Verizon's successful Fios network.

Through this investment, we're excited to help bridge the digital divide in America with the transaction that aligns well with our strategy, sourcing value-oriented investments with aspects of compete that represent transformational opportunities as a corporate carve-out.

Including Lumen, Fund IX is now 72% committed or invested. Given the current deployment outlook and the robust IX returns, we expect to be fundraising for Fund X in the first half of next year.

Our vision for the Hybrid Value platform is materializing as planned with a very active pipeline of transactions as companies are increasingly seeking flexible bespoke capital solutions. Hybrid Value Fund I is nearly fully deployed, and we expect to begin deploying Fund II in the very near term. We also signed our first GP solutions transaction this quarter in conjunction with our Hybrid Value franchise.

In our Credit franchise, deployment and origination was also very strong at $19 billion during the quarter, our highest since the fourth quarter of '19. We have remained defensively positioned this year in comparison where we were a year ago and continue to focus on idiosyncratic opportunities and individual names. MidCap, CLOs and our commercial real estate debt businesses all had strong origination quarters, contributing $10 billion on total credit deployment.

Additionally, our aviation business completed a $1 billion aircraft-related origination volume during the quarter, our most active quarter in years. This deal volume coincided with the final close of our inaugural aviation drawdown fund, Navigator, which showcases our ability to leverage our industry expertise into a retail-dedicated product. As we look forward, our origination pipeline remains strong across MidCap, Europe and aviation to name a few areas.

On the monetization front, we realized very strong returns for our fund investors during the quarter. We returned $9 billion of capital, up significantly from the prior year period. The private equity flywheel is very much in motion. We have entered a robust realization cycle encompassing 2 flagship funds. At the same time, we expect sizable monetization activities in Fund VIII and IX to be balanced with a continued and healthy deployment activity.

Turning to growth in assets under management, recall that our business generates inflows in a variety of ways. We have our institutional fundraising channel, our emerging growth wealth management solutions platform, the consistent and strong growing -- growth coming from -- through our retirement services clients, namely Athene, as well as inorganic growth potential across the platform. While this mix can vary year-to-year depending on opportunity as well as the timing of certain products in the market, the breadth and depth of our platform ensures attractive growth across time.

As such, inflows for the second quarter were $12 billion, bringing total inflows for the first half of the year to $26 billion. For the full year, we expect to generate inflows of approximately $50 billion, driven by $30 billion or more of inflows from Athene, as Marc mentioned, and approximately $20 billion of inflows from our third-party institutional and wealth management businesses, at the high end of our previously communicated $15 billion to $20 billion targeted range.

Not surprisingly, organic growth trends at Athene remain very favorable and appear to be accelerating with particular strength in year-to-date funding agreement-backed note issuance and pension risk transfer activity where they just announced a $5 billion transaction yesterday.

In our third-party institutional business, we've had strong engagement with fund investors on both existing and new products. And for example, we are making strong tangible progress on our capital raise of our $1 billion-plus inaugural Impact fund. We also plan to be in the market for our inaugural Accord Plus fund, a new multi-asset-class opportunistic credit product this fall.

As we discussed earlier this year, we see tremendous growth opportunity potential in the high net worth and mass affluent markets given its increasing sophistication and are investing heavily to capitalize on this long-term opportunity through our dedicated global wealth management solutions platform. We are approaching the opportunity with a leading brand name and investment track record, establishing targeted distribution and tailoring products so that the individual investors globally can access our strategies across the risk/reward spectrum.

We are also focusing on how education, technology and client service will shape our approach. In addition to hiring a Head of U.S. Distribution, we've built on a team to cover the U.S. private banks and wirehouses, including wholesalers with coverage across the country as well as national account professionals.

We have plans to continue to add professionals in the U.S. and internationally as we build out our global footprint. The independent channel is also a priority for us as we look to expand our existing coverage. We're focused on deepening our partnership across wealth management channels globally through the distribution of our qualified purchaser strategies, including, but not limited to, our large-scale direct origination, hybrid value and PE.

But additionally, we're also contemplating several accredited strategies, including a several -- semi-liquid private credit opportunity. Historically, approximately 94% of Apollo's third-party inflows have come from the institutional channel, but we're actively working to change that mix. In 3 to 5 years, we believe the contribution from the wealth management channel will be a material part of our third-party inflows given the vast opportunity in the $55 trillion-plus global retail market.

As a reminder, Athene already access this part of the retail market via its retirement services product offering. We believe the alignment we are creating with our upcoming merger will help expand their retail network as well.

You likely noticed that we had a very strong transaction and advisory fees in the second quarter, including $55 million of fees from the Credit business. These results reflect our ability to source and distribute large-scale credit as we have made growing our high-grade alpha origination pipeline our strategic priority. One of the largest transactions this quarter was for Hertz, which follows other successful transactions over the past year, including ADNOC and AB InBev.

Alongside our efforts in large cap lending, we have been very focused on developing our capital solutions platform. This quarter, we made several key hires to help scale our centralized origination, structuring and distribution platform. And we are confident that we will continue to see significant acceleration of this market opportunity and feel comfortable that our business will grow.

As Marc touched upon, we announced several strategic investments this quarter, which we believe will bolster our front-end origination capabilities longer term. Continuing to invest and grow in these front-end origination platforms is a key tenet of our growth strategy. So you should expect us to announce additional investments to further broaden the platform.

Our recently announced partnership with Victory Park will give us access to proprietary origination in the e-commerce financing markets. Additionally, Athene's acquisition of Foundation Home Loans will complement our expanding asset sourcing in the residential mortgage space in the U.K. We expect the businesses will be multiple -- both of these will be multiple-billion asset originators for Athene's balance sheet and our institutional investors over the several -- coming several years.

As part of our broader innovation agenda, we announced 2 key investments this quarter, Motive Partners and Figure. We are embracing technology as another way to expand our origination and distribution capabilities and to help put us at the forefront of advancement and disruption across financial services. Additionally, we believe that the broad adoption of blockchain to materially reduce back-office operating expenses presents additional revenue synergy upside.

In conclusion, we are making substantial investments across our credit and opportunistic businesses as well as our enterprise solutions platform to take advantage of the opportunity set in various growth markets. We have shown meaningful progress on expanding our capabilities and footprint in the first half of the year, and you should expect to see us continue to make additional announcements in the coming months.

With that, I'll turn it over to my partner, Martin.

**Martin Bernard Kelly**
*CFO & Co-COO*

Thanks, Jim. In the second quarter, as you've heard, Apollo recorded very strong results across all key financial and operating metrics. We generated FRE of $0.68 per share on a pretax basis. On a dollar basis, FRE increased 5% quarter-over-quarter and 16% year-over-year, driven by growth in management fees and an uptick in transaction and advisory fees.

Fee-related earnings exceeded $300 million for the first time, illustrating our continued progress in growing this highly valuable earnings stream. Management fees grew 3% sequentially and 15% over the prior year quarter, driven by the growth of our retirement services clients as well as strong investing activity across our platform broadly.

Transaction and advisory fees were $83 million in the quarter, up $28 million over the prior quarter and totaled $139 million over the first half of the year. These strong results reflect the build-out of our large cap lending business, including a significant financing transaction with Hertz and co-invest capital for the Michaels transaction within Fund IX.

Compensation expense was up 4% over the prior quarter, largely driven by the strategic hiring activity Marc discussed earlier. These additional resources are critical to support the abundant growth opportunities in front of us as well as to position the platform for increased efficiency in the future.

Looking forward, we expect compensation expenses will continue to trend higher, reflecting this hiring investment. However, we remain confident that this growth -- this cost growth will be managed in line with our long-term mid-teens or better FRE growth expectations.

Non-compensation costs increased $18 million sequentially due to higher recruitment costs and occupancy expenses as we expand our global real estate footprint to adequately accommodate our growing team.

Turning to DE. For the second quarter, we generated after-tax distributable earnings of $1.14 per share, supported both by our strong and consistent pretax FRE and net incentive earnings of $0.58 per share.

Behind the strength of private equity realization activity during the quarter, we recognized $222 million of net carry. Notable transactions included LifePoint Health, Verallia, Double Eagle Energy, Apollo Education Group and OneMain Financial, among others.

From the quarter's DE, we announced a dividend of $0.50 per share. We retained excess cash earnings to invest in growing the new platforms that Marc and Jim both described. The aggregate investment by Apollo and affiliates in these platforms across the second and third quarters amounted to approximately $1 billion.

As we evaluate additional investment opportunities with our upcoming change in dividend policy post merger, we are on a glide path to this new approach and expect a similar $0.50 per share dividend in the third quarter before the new $0.40 per share dividend takes effect after the merger closes.

As Jim mentioned, we have entered a robust realization cycle that we believe will provide sustained and meaningfully higher realizations. In the near term, and as evidence of this, we expect to report 2021 full year after-tax DE of over $4 per share. Based on activity to date in the third quarter, we have already realized pretax net carry of approximately $0.50 per share.

When you consider Apollo's ramping incentive earnings, paired with strong and growing FRE and further combine with the attractive growth and earnings profile at Athene, the earnings growth and capital generation characteristics are very powerful.

Turning to AUM. We ended the second quarter at $472 billion, up 2% quarter-over-quarter and 14% year-over-year, driven by third-party fundraising, organic growth from Athene as well as portfolio appreciation and partly offset by strong PE realization activity. Fee-generating AUM of $354 billion was up 2% quarter-over-quarter and 7% year-over-year. Dry powder for investments across our fund complex totaled $48 billion at the end of the quarter, of which $25 billion has the potential to drive management fees once invested.

S&P recently published their annual report on Apollo and upgraded our credit rating outlook to positive. Our net economic balance sheet after debt and preferred stock was approximately $11 per share as of June 30, increasing nearly $3 per share quarter-over-quarter.

To echo both Marc and Jim, we are pleased with the impressive results this quarter, and we expect the strong business momentum demonstrated in the first half of the year to continue. Looking forward, we are focused on executing our growth strategy, including via our announced merger with Athene.

In order to lay out our growth strategy in more detail, especially as it pertains to the upcoming merger, we will be hosting an Investor Day in October. And we hope many of you will be able to reconnect with us in person for this important event. We expect to have a very targeted agenda centered on several key focus points, including the growth strategy of our combined business, the financial construction and earning streams of our combined company as well as our earnings profile and capital allocation expectations.

With that, I'll turn the call back to Peter.

**Peter Mintzberg**
*Head of Investor Relations*
Thank you, Martin. That concludes our remarks for today. Operator, please open the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from the line of Alex Blostein from Goldman Sachs.

**Alexander Blostein**
*Goldman Sachs Group, Inc., Research Division*

So in the prepared remarks, I heard lots of growth initiatives really across a pretty wide spectrum of initiatives, which is great to hear on top of Athene. I guess taking a step back, can you help us maybe with the framework and sort of the growth algorithm for management fees outside of the insurance partnerships, call it, over the next 2 years, especially as realizations from private equity vintages start to accelerate?

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Maybe I'll -- it's Marc. Maybe I'll provide a framework for it and then turn it to Martin and to Jim to fill in. So broadly, what we've said, and again, we will be more specific at Investor Day, we expect our yield business to double, and we expect our opportunistic and hybrid business to be 50% larger over the next 5 years.

That is a doubling of the business, doubling of FRE, doubling of AUM. And that is without significant acquisitions or any real acquisitions from the capital that we have accumulated and the capital that we will accumulate at the combined entity. So I think that provides at least some backdrop and framework for how we're going to grow.

I'll dig into a little bit on the without Athene question, and this will carry over to remarks, I expect, from other questions. 100% of any asset that we originate in the yield business has a home. In fact, 150% of any asset that we originate in the yield business has a home. We, as an asset manager, have a choice, and that choice is do we derive a pure asset management fee from that or do we derive a pure asset management fee plus spread-related earnings.

What we have done and what you will -- the merger with Athene reiterates is that we believe, given that asset scarcity has limited our growth in the yield business rather than liability accumulation, we should earn as much money as possible from assets that we originate. That does not mean at the expense of third-party business because we can't take concentrated positions onto a retirement services balance sheet.

But -- and so what we have done is we have built an expanding ecosystem of similarly situated companies, all of whom face the same challenge that Athene and others face, which is the absence of spread in public markets. So long as we increase the origination capacity, 100% of those assets have a home. They can go on to Athene or Athora's balance sheet. They can go to third parties. They can go, as we've already suggested, into a mix as opposed to looking at it as one or the other.

So Jim, Martin?

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

No, I would echo that. And I think what we've -- a great example, Alex, is the high-grade alpha where those transactions were very -- were critical in Athene or Athora or other insurance balance sheets with the lead buyer, but a combination of other third parties augmented that demand side.

So they go hand in hand. The growth goes hand in hand. The creation and the development of these origination goes hand in hand. And certainly, we look at them as multiyear growth. The critical aspect is the origination angle, but the balance sheets of the insurance companies as well as third-party institutions grow. And certainly, as you grow wealth management, that retail democratization will be at the trough as well.

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Maybe I'll just -- I'll close out because I think one point that I do want to emphasize, the go-to-market strategy, asset origination is key, but it also is followed by alignment. There is nothing more reassuring to a third-party client than the affiliated balance sheet owns the same security and size, same time, same price. That is, in fact, a unique selling proposition and why, in particular, in things like high-grade alpha and we expect other areas, we will see significant growth in third-party business side-by-side with Athene.

**Operator**

Our next question comes from the line of Glenn Schorr from Evercore ISI.

**Glenn Paul Schorr**
*Evercore ISI Institutional Equities, Research Division*

Maybe we could continue the conversation on the origination side. So I hear you loud and clear, 100% of the assets you originate have a home. So my questions are, and I know that's -- maybe we'll talk generically because each one is probably different. When you look at something like Victory Park or the U.K. mortgage lender, what percentage of their production are you getting? Who controls the underwriting? Is it exclusive? And does Apollo take on any risk in these transactions? I know the assets are going in the funds, but I know that's a lot, but I want to learn more.

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Okay. So first, Glenn, thank you. These are not your droids either. Just to show you that we actually read what you publish. But let's come back to what origination is. Origination gives us control of documentation. It gives us control of diligence. It gives us control of structure, and it gives us improved economics. The one thing it does not give us is liquidity. We think that is the right trade-off for a fixed income replacement business, which is the general characteristics of our yield business.

There is no one size fits all with respect to the platform. But the reason to do this is to control the credit process and the diligence process and not expose yourself to undue risks. In some of the platforms, and I won't just stop there because there are Donlen, PK Aviation, MidCap, Net Lease and a number of others, in some of the platforms, we derive as Apollo or as the broader Apollo, Athene and third-party management ecosystem 100% of the production.

In others, we also securitized and participate in capital markets at least for a portion. This is all about optimization of the specific risk/reward in platforms we own. In platforms we partner with, which is another way for us to acquire a platform, I'll let Jim address what we do with Victory Park.

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

So like Marc -- what Marc just described is what we have with the names he mentioned, including Foundation, where we'll take all of those assets, put them on to our insurance or other balance sheets and then the ongoing flow will exclusively come to us because we, in essence, control and own that platform.

Victory Park is different. Victory Park, they have really spent a number of years really fine-tuning their financing and funding to the growing expansion of online financial retail distribution. And in that case, we are a partner with that firm where we provide a senior facility, and they are the junior debt and equity underneath us. There is some alignment between warrants or otherwise.

But again, we are aligning to their flow because as the ecosystem of finance and funding has evolved in the last 10 years, there are certain firms that are really connected with the consumer in other ways than traditional bank lending. And so we want to be the financing partner to those firms.

And in those situations where we don't control all the aspects that Marc said, the ultimate control we have is to open or tighten the flow of product over a quarterly basis. So we -- what we have actually found is the flexibility to go from 100% control to align partner around the U.S. and around the globe, that really allows us to create that incremental spread on that fixed income alternative that Marc talked about.

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

And more broadly, Glenn, just to come back to this again, we as an industry and us, in particular, we've spent a lot of time talking about perpetual capital. We really are interested in perpetual asset origination. We need to start each year understanding that we have the capacity to generate significant amounts of yield, the assets appropriate for the client base, internal and third party that we have elected to serve.

**Operator**

Our next question comes from the line of Michael Cyprys from Morgan Stanley.

**Michael J. Cyprys**
*Morgan Stanley, Research Division*

Marc, I guess with nearly 1 year or 0.5 year under your belt running the firm, can you just talk about how you are improving the governance structure of the firm, how the Board structure is evolving, how you see the culture of the firm evolving here? And can you also touch upon the key person point that you mentioned at the beginning of your remarks that was satisfied and addressed?

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Sure. Let me work backwards. The key person, again, I think as Scott suggested in his remarks last quarter, the PE franchise is a franchise that has been well institutionalized. The team that oversees our Private Equity business, Matt Nord and David Sambur, have really been the primary contributors for the past 3 funds. The results in the business are nothing short of spectacular as you heard this morning. The notion, just to step back, that a $25 billion fund is up high 40s gross and high 20s net and such a strong MOIC is itself astounding. It almost sounds like venture numbers.

So I do not believe that we really ever thought that this was an issue, and it simply reflects the evolution and maturation of the franchise where those people who are most important to the franchise are now, I'll say, key man, but I really mean key person because that's increasingly where we're going. And those who are less important to the franchise or are moving on, as in Josh's case, are no longer key people. So not an issue.

Culture is a big area of focus. So when I divided the tasks with my 2 partners, Scott and Jim, I said what you would expect, as CEO, I get to choose first. So I'd like to do strategy, culture, communication and dealing with problems. And I left most everything else to the 2 of them, including the day-to-day running of the business. But culture is key.

Internally, Apollo's culture has really always worked. I mean I give these statistics, but sometimes it's helpful just to reframe it. We started 2020 as a 1,300-person firm. We added 300 people remotely during 2020, and turnover went down. We will add between 300 and 400 people, and turnover is trending down. What we have built internally is the most collegial, the most integrated, the most entrepreneurial model. And I believe all of those things we need to do when we need to double down on.

Having said that, we also need to recognize that the world is changing and markets are changing. Increasingly, our business by population is comprised of FRE generation businesses around yield. That requires a different set of compensation tools, a different culture and a different approach, and we are evolving rather than radically changing. The momentum in this place is palpable, and it feels great.

I'll just -- I want to not leave it unsaid. Governance is also a transition. As I previously noted on calls, our entire industry is going through an evolution. The evolution started. We all pretty much started as private equity only, private limited partnerships. Those firms that were successful in those activities and institutionalized their business got trusted with more capital. Those that also did well with more capital got to broaden the strategies.

And once you got to that, a number of the firms sufficiently institutionalized were successful in going public. That generation of founders will turn over. I know some don't think that will happen, but it inevitably will happen. We are the first of the large firms really to go through that wholesale transition, not just at a management level, but at a governance level and a shareholding level.

As I said somewhat jokingly, I believe others will do it less noisily than we have. But it does feel good to be on the other side of that. The business functions normally. We function with the Board as any public company would function with the Board. And there's just no impediment to what we're doing. We will lay out in Investor Day, alongside the topics that Martin discussed, our approach to governance and also approach to compensation and some of these cultural initiatives going forward. But it does feel really good.

**Operator**

Our next question comes from the line of Bill Katz from Citigroup.

**William Raymond Katz**
*Citigroup Inc., Research Division*

You guys are going pretty quick in terms of what you're doing on the retail side. I was wondering if you could sort of maybe recap where we are today. And then as you look into 2022, it sounds like, maybe where like the early opportunities might sit in terms of capital raising.

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

Sure, Bill. It's Jim. So just to level set, if you look over the last number of years, approximately 95% of our fundraising had been through our traditional institutional channels. And we had raised with some -- with a higher net worth, the private banks and the large wirehouses, some of our flagship products, whether it was EPF or fund -- our PE funds. Those had been a traditional distribution channel for us.

Starting actually in the middle of last year, we embarked on a strategy to dramatically increase our global wealth distribution channel. And we really aligned our senior leadership to allow the next generation to come up and run our institutional business and proven leadership under Stephanie to really focus on the global wealth channel. So we set it up about a year ago.

Part of the numbers that Marc and Martin went through about the hiring this year, we've hired a tremendous amount of folks. And so we believe that through the course of this year, we will have a team that can really feel the breadth of distribution across geographies and products.

So to your next question, a lot of the products we have is just really opening the spigot to what we have today, but it's also creating new products that fit the accredited marketplace. Obviously, we have a non-traded BDC that we expect to be out in the market in the latter quarters of this year and to really ramp up in '22 and beyond. But there are a variety of other products in the lab that we will focus really on the yield and the hybrid products for the mass retail agendas, not only in the U.S., but in Europe and Asia.

So that's the 3-part plan. We all have seen how large the marketplace is. We believe it's a -- where the numbers are $40 trillion or $55 trillion, it's in a massive total addressable market. We believe our brand, our track record, our product innovation will be able to conquer our fair share and go on from there. But it's an exciting growth tool for the firm, and we expect to have our participation.

**Operator**

Our next question comes from the line of Patrick Davitt from Autonomous Research.

**Patrick Davitt**
*Autonomous Research LLP*

You mentioned the Challenger stake. Could you help us understand a bit better how this could flow through earnings and value for Apollo's shareholders? And is the endgame here having another insurance platform like Athene or Athora, but in Australia?

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

So it's Marc. I think it will depend. We'll see how it develops. But just to recap, we, over a roughly 12-year period, were a minority shareholder of Athene. And only earlier this year did we decide to bring in 100%. We also have a significant but minority shareholding in Athora. And so we look around the world, and there are a bunch of really interesting markets. And this is probably more than you want, but regulatory change and the absence of spread in public markets is creating opportunities in Japan, in Taiwan, in Hong Kong and a number of other markets.

Some of those markets are best accessed through reinsurance or through other types of entry strategies. But a market like Australia is best accessed, in our opinion, through a stakeholding in an established company with its own strategy, its own regulatory and asset origination capability and, quite frankly, a mentality that is very similar to ours. So I think it's early days. But I'll come back to the growth in the retirement services business is not about liabilities. It is all about assets.

**Operator**

Our next question comes from the line of Robert Lee from KBW.

**Robert Andrew Lee**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Maybe just going to transaction fees and maybe digging into that a little bit. Obviously, we have been up a lot. Can you maybe give us a sense, as you ramp your origination capabilities, kind of get a good -- a better sense of kind of the linkage of that to origination versus also maybe realization activity, if there's -- if you see -- as your realization activity ramps up also, we should see that translate in some ways to higher transaction fees soon? Maybe just think of some of the buildup.

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

Sure. So we think about our platform -- as the landscape has evolved over the last decade and as our platform has evolved, as Marc and I and Martin have all said, origination is the key to our business. And so the ability for us to source product that we directly originate, whether it's in the commercial real estate, residential real estate, corporate world, it's critical to our long-term growth on that spread business.

The reality is the scale of our business today, the ecosystem of combining origination, structuring and then in the need of syndication, it's like a flywheel. The larger transactions you get, there's a thinner universe of folks that can provide those capital solutions for the company, as I mentioned, Hertz being the one this year. And again, once that flywheel gets going, your ability to be important to borrowers as well as not only our balance sheets but third-party institutional clients and other LPs, it's a critical flywheel.

So yes, as we ramp up our bespoke origination in the U.S., but globally, and our dialogue with all different types of investors expands, you will expect to see larger transaction fees. And as I said, interestingly enough, last year, with our success of the transactions, the ADNOC and the AB InBev, our ecosystem with large U.S. insurers dramatically increased. And not only did they come in for vehicles and SMAs on those types of products, but it expanded back into our business in some of our opportunistic Impact infrastructure, and I would suspect you'll see a lot more activity out of those investors in Fund X.

So the flywheel and the ecosystem are connected. The whole capital solutions, capital markets transactions, how it works between all 3 are inherently connected. And it's a big growth area. And we brought in some great leadership. We think that our capital markets and integrated platform, the fact that we don't have any information barriers between all of our businesses, what's going on in the syndication loan -- syndicated loan market with direct lending, which we've been a big player in with our JV with Mubadala, these are all connected. And you'll see us talk continuously about those in the quarters and Investor Day to come.

**Operator**

Our next question comes from the line of Gerry O'Hara from Jefferies.

**Gerald Edward O'Hara**
*Jefferies LLC, Research Division*

Maybe one for Martin. I appreciate the comments kind of around continued investment with respect to comp expense, but also balanced against mid-teens or better FRE growth expectations. And I suspect you'll probably flesh a little bit of this out during the Investor Day. But can you give us a little bit of a sense of how to think about FRE margin over the next kind of, I guess, 6 to 12 months or longer as it relates to those comments?

**Martin Bernard Kelly**
*CFO & Co-COO*

Yes. So Gerry, we're -- actually, we're really focused on FRE dollar growth. We're very comfortable with our margins where they are, which are sort of low to mid-50s. And investment and building out the platform needs P&L, CapEx. And so you invest now for revenues later. So we are -- we suggested using the numbers that Marc has outlined on doubling in yield and a 50% growth in opportunistic as sort of as a baseline. That's a 15% FRE growth rate. I would expect that the margin will sort of hold around current levels, and we'll always be investing for future growth opportunities that we see ahead of us.

**Operator**

Our next question comes from the line of Devin Ryan from JMP.

**Brian J. Mckenna**
*JMP Securities LLC, Research Division*

This is Brian Mckenna for Devin. It's probably a little early, but what are your initial expectations for private equity Fund X fundraising? Do you think you'll be able to raise something similar to Fund IX, which was about $25 billion? And there's clearly a lot of deployment opportunities across the market today. So how do you think about appropriately capping the fund relative to the current deployment backdrop?

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

That's our working plan. Our working assumption is that we will seek to raise a fund the same size or similar size to that which we have.

**Operator**

Our next question comes from the line of Adam Beatty from UBS.

**Adam Quincy Beatty**
*UBS Investment Bank, Research Division*

I wanted to circle back to the third of the 3 themes that Marc laid out in the opening, specifically fintech-driven change in alternative management. We can infer something from the discussion of Victory Park and some of the other deals. But just wanted to give you the opportunity to frame out what you see as the 2 or 3 most important changes, the questions being asked, if you will, of the alternative management industry by fintech, and you might want to say the answer is for later on.

**Marc Jeffrey Rowan**
*Co-Founder, CEO & Director*

Look, we'll do a little of this now, but I think there are some of the obvious. The first comes to me in balance sheet. Most of the fintech providers do not want to be the owners of the assets. They want to be the pipe or the originator. And we are an excellent partner for platforms that we trust, whose underwriting we trust with full visibility and full credit and documentation due diligence.

And what you will see us do is what we've been doing, backing those who we think are winners, taking stakes where we think it's important to take a stake and otherwise facilitating an infrastructure and an ecosystem that generates the kind of fixed income replacement, 150 to 200 basis points over comparable investment grade that we are looking for. And we have a huge appetite for this, and we are a relatively easy partner to work with and very commercial.

The second place is we are a massive user of fintech services. Look at our securitization business, which is the first area that we are attacking with Figure. This is an opportunity for cost reduction, documentation improvement, data gathering, speed to market. And I doubt this will be the last of the partnerships that we have in terms of validation of blockchain or other types of services that offer these opportunities.

And that's before we start thinking about our own business. Jim alluded to it, but if you think back to Jim's comments on the securities -- excuse me, the syndication business, the syndication business has existed in its existing form forever. We generate in a centralized way a clearinghouse of product, and it sold salesperson to salesperson. My guess is you will see over time some amount of technology applied to that. And the pace of innovation is actually increasing. And what we're seeing is a lot of the most interesting innovation is taking place in the high net worth and ultra-high net worth channels first. And I expect that to continue over the near term and ultimately to move into the institutional channel.

Final thing I would point to is the entire documentation process, the subscription and signing on for institutional partnerships is surprisingly antiquated, probably the best word I could find. I think the streamlining of our business through the use of technology, including through interactions with our investors, is just going to gather steam. But those would -- I would say, the mundane, more to come.

**Operator**

Our next question comes from the line of Bill Katz from Citigroup.

**William Raymond Katz**
*Citigroup Inc., Research Division*

I think it sounds like you're going to spend a little more time on this in October, so perhaps I'll leave it to then. But you obviously have one insider, in particular, that's been selling rather heavily just given everything that you're doing in terms of funding growth elsewhere. Any opportunity to remove some of that technical overhang, particularly given the overall change among the 3 original partners?

**Martin Bernard Kelly**
*CFO & Co-COO*

Yes, Bill, there's alternatives that we've -- that we would do what we can to avoid a significant and persistent selling of stock, obviously subject to agreement. But there's the obvious structural transactions that we can look at to do that. My sense is he's comfortable with what he's done. And as he steps back from the business, he wanted to lighten up a bit. So it's not surprising. But he'll make his own decisions. And if we can facilitate that, then we will.

**Operator**

Our next question comes from the line of Patrick Davitt from Autonomous Research.

**Patrick Davitt**
*Autonomous Research LLP*

The credit performance fee was pretty outsized for a non-4Q result. So could you give a little bit more color on the driver of that? And in that vein, as we look into 4Q, could you give us an idea of how the hedge funds that drove the big 4Q performance fee last year are tracking relative to last year?

**James Charles Zelter**
*Co-President, Managing Partner, Chief Investment Officer of Credit & Director*

Yes. So the -- I'll let Martin get into some detail as well. But whether it was Accord or some of the other products that have continued to do well. Accord is the, just a reminder, it's the product that has a limited drawdown window, 12 to 18 months and then it's monetized. We're on Accord IV now, and there's been great success in that platform over the last 3 or 4 years, hence, the development of the new product, Accord Plus, which expands it. But that really was probably the key reason on a quarter-to-quarter basis.

**Martin Bernard Kelly**
*CFO & Co-COO*

Yes, it was a couple of different funds. But Patrick, 90% -- close to 90% of the total carry came from PE, and that was across a portfolio of funds. It's actually interesting that we're seeing the tail end of Fund VII, the front end of Fund IX and the bulk of the carry coming from Fund VIII, and Hybrid Value is contributing as well. So there's -- each of those funds has a diverse portfolio of investments, which are starting to monetize, principally in Fund VIII, but Fund IX is helping around the edges. And so as we look forward, the main story will be Fund VIII realizations for the next handful of years and then Fund IX should pick up on the back of that in real size.

**Operator**
Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.