S&P Global
Market Intelligence

Apollo Global Management, Inc. NYSE:APO

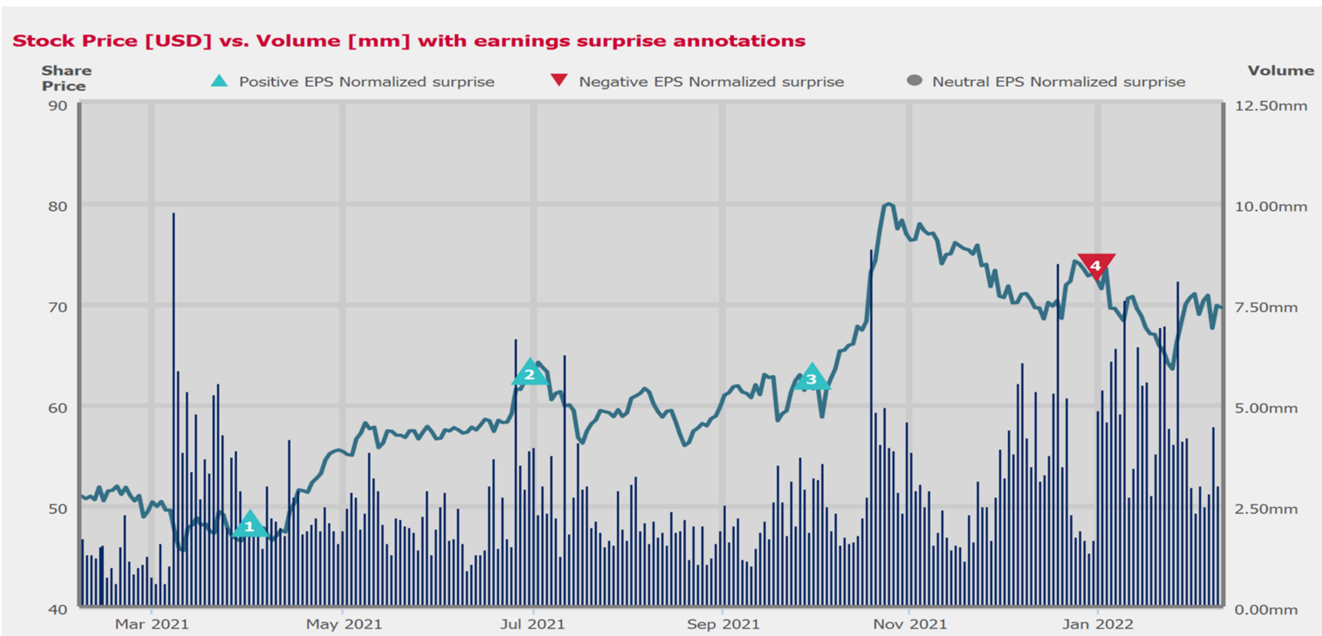
FQ4 2021 Earnings Call Transcripts

Friday, February 11, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.09	1.05	▼(3.67 %)	1.21	4.54	4.56	▲0.44	5.18
Revenue (mm)	568.54	597.47	▲5.09	633.04	2170.71	2233.18	▲2.88	2637.39

Currency: USD
Consensus as of Feb-11-2022 2:50 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	0.58	0.66	▲1 13.79 %
FQ2 2021	0.71	1.14	▲2 60.56 %
FQ3 2021	1.10	1.71	▲3 55.45 %
FQ4 2021	1.09	1.05	▼4 (3.67 %)

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Call Participants

EXECUTIVES

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

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Martin Bernard Kelly
CFO & Co-COO

Noah Gunn
Managing Director & Global Head of Investor Relations

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's Fourth Quarter and Full Year 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 also 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 the 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 Noah Gunn, Global Head of Investor Relations.

Noah Gunn
Managing Director & Global Head of Investor Relations

Great. Thanks, operator, and welcome again, everyone, to our call this morning.

Our fourth quarter and full year 2021 results reported earlier today reflect Apollo's financial results on a stand-alone basis, before consideration of our recent merger with Athene, which closed on January 1. That said, we will briefly touch on key highlights from Athene's results, which were issued separately this morning.

In addition, we posted a financial supplement on our website, which updates our fourth quarter and full year results in our new post-merger financial construction. Beginning next quarter, this will be our primary view, including contributions from our 3 new segments, and will illustrate our combined earnings power.

Fee-related earnings reached a quarterly record of $309 million or $0.67 per share in the fourth quarter and $1.2 billion or $2.68 per share for full year 2021. In terms of distributable earnings, we reported $1.05 of DE per share for the fourth quarter and an annual record of $4.56 per share for full year 2021, which is more than double the level we earned in 2020.

Joining me this morning to discuss all the business momentum we are seeing at Apollo and our results in further detail are Marc Rowan, CEO; Jim Zelter, Co-President; and Martin Kelly, CFO. We look forward to addressing all your questions following the conclusion of our prepared remarks.

And with that, I'll now turn the call over to Marc.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thank you, Noah. Good morning to all. Thank you for spending time with us.

As I often say, I'm fortunate to lead a company in an industry that gets better every day. Our industry is driven by powerful trends, demographics, generational transfer of wealth, low rates and the extreme correlation and indexification of equity and fixed income markets. I am even more fortunate to lead a company with tremendous momentum and with a unique business model in the alternatives industry.

2021 was a transformational year for Apollo. AUM is a record; fundraising, a record; modernizations, a record; origination, a record; 424 people joined our platform, another record; and turnover was the lowest it's been in a very long time. We achieved 15% year-over-year FRE growth without any sizable inorganic activity and without a flagship fund, which, as all of you know, is in the cards for 2022. As excited as I was for 2021, 2022 should be even brighter.

At our very detailed Investor Day in October, we communicated a strategic vision and financial plan. In just a few short months, we have made significant progress against that plan. Recall the 3 pillars of that plan or the 3 key bets, as we like to say. One was the growth in our retail business and retail franchise, which I will touch on, and Jim Zelter will spend more time on. The second, origination, which is the capacity to originate investments and, therefore, continue to provide above-average rates of return per unit of risk for our clients. And the third in our Capital Markets segment. Let me take a second and just briefly touch on each of those 3 bets.

In origination, we originated $37 billion in the fourth quarter. We're now running well over $100 billion on an annual basis. Recall why this is important. Our market sometimes loses sight of what's in short supply. Capital as a general matter is plentiful, and it is assets that offer appropriate risk rewards that are in short supply. Therefore, we are incredibly focused on growing our capacity to originate assets that offer attractive risk rewards. They are, in fact, the limiter on our growth rather than the capacity to raise money. Every attractive asset that we originate across our platform has a home in a fund, in a co-invest, on a retirement services balance sheet or through syndication. In short, it is never capital that is in short supply, it is assets, and we are micro focused on scaling origination.

Platforms, which are recurring originations, are a very significant portion of our strategy. In the fourth quarter alone, we added Aqua Finance in consumer, Petros Pace Finance in solar, Eliant Inventory Solutions in partnership with BNP, and the momentum continues. No one is doing what we are doing at the size and scale, and we've talked a lot in our industry about permanent capital. I'm much more interested in talking with you about permanent origination.

In global wealth, as you know, we announced the acquisition of Griffin. Griffin Capital is a meaningful accelerator to build out our global wealth platform. We also made, during the quarter, strategic investments in 2 technology companies to facilitate the growth of our distribution businesses. Case and ICAP are 2 of the leading technology platforms, helping financial advisers access alternative strategies. Tech-enabled distribution is a must-have for anyone hoping to serve this market.

We also saw early product success in the channel. Our BDC, Apollo Debt Solutions, is off to a very strong start, which Jim Zelter will take you through. I continue to believe that democratization of finance is one of the most powerful tailwinds driving our platform. If you think about our industry and us, in particular, we, in the alternatives industry, have spent better than 30 years on the cutting edge of creating products and services, primarily for large global institutions who are not taxpayers. We have an opportunity now as a result of increasing sophistication of retail investors, increasing technology, increased democratization and legalization of opportunity and this massive generational transfer of wealth, to take that brainpower and focus on creating products and services that are bespoke for this particular channel. Early iterations of serving this channel have been very successful but really are the first step. They are nothing more than the institutionalization of products that already exist.

I view the real steps here as creating unique products and services that are designed for this channel. And given our experience with Athene, which you will hear, we have tremendous insight into what it takes at a granular level to make be successful in this channel.

On capital solutions, again, Jim will go in more detail. Suffice it to say, 2021 revenues in capital solutions were up 20% year-over-year. And as you know, our plan that we've communicated is a doubling of capital solutions revenue over the next 5 years. Significant landmark transaction, which I know Jim will touch on in the fourth quarter, is SoftBank, which will help you imagine where we're going with capital solutions.

Noah touched briefly on our quarterly reporting. This is the last quarter that we will report on a stand-alone basis with the Athene merger having closed on January 1. Athene had an awesome 2021. As good a year as Apollo had, Athene had an even better year: record profitability, earning more than $2 billion; record organic inflows, more than $37 billion of organic inflows, not only record inflows across all 4 of its business channels, but the returns at which this new business was underwritten significantly exceeded the compelling mid-teens target that we have. With the merger closed and collaboration and creativity ongoing, I see nothing but upside from the combination that closed just a month ago.

I'd be remiss if I didn't touch on the market. Everywhere I go, people want to understand the impact of current market trends on our business. My standard answer, if you think about the environment we've been in for the past 10 years, purchase price has not mattered. The more risk you took, the more outrageous, generally the higher the payoff. We have seen a significant correction across equity markets as a result of revaluations. We have also seen a significant change in fixed income markets as a result of Central Bank activity.

Our platform is built for purchase price matters. We have achieved amazing results over the past decade in a market that has not necessarily been kind to our strategy and where our patient, value-oriented, disciplined approach to capital deployment has not been rewarded. I believe we are in the right place at the right time. I believe the 2022 fund raise for

Apollo X, that will be very successful as we offer our large institutional clients a different approach to how to get return in a market that is -- seems to have lost a bit of the go-go spirit.

Let me pivot to merger and governance as I get ready to hand over to Jim Zelter, who is chomping at the bit to take over. The merger with Athene closed on January 1. The next chapter is very exciting, low risk of execution, as we know each other incredibly well, having worked together for the past 12, 13 years. We are adding the 1,400-person Athene team to the roughly 2,000 Apollo employees; pro forma 3,500 total employees, approximately $40 billion of market cap.

In addition to the mirror merger, this was an opportunity for us to complete the governance changes that we have had hinted at and been very explicit at throughout the last year. We are 1 share, 1 vote. We are a 2/3 independent Board. We have an independent Chair. And we have all of the requisite requirements to be eligible for broad index inclusion.

Now let me conclude. I often say when I started our Strategy Day by really pointing out that culture beats strategy every day. We have built an incredible culture. The marketplace understands the long-term benefit of what we are building and is helping us to win the war on talent. People are attracted to the clear strategic vision, the authentic nature of the people they meet and our cultural values.

As I suggested, we added 424 employees in 2021. While very exciting, we're not likely to repeat that in 2022, having made significant progress. These are senior hires across global wealth, origination, finance, Asia Pacific.

We have incredible momentum going into 2022. The team is eager to execute the plan we have articulated for you. We're excited about the next chapter and a more profitable one Apollo and ready to take the hill.

Let me now turn it over to my partner, Jim Zelter.

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

Thanks, Marc. 2021 was indeed a banner year for Apollo, as Marc described. We remain squarely focused on driving excess recurrent returns across the spectrum from fixed income replacement up to private equity in order to deliver the investment alpha that our clients entrust us to provide. Our record deployment activity exemplifies our ability to source recurring transactions at scale as well as the expanding diversification of the platform.

In our private equity business, we committed and invested more capital over the last 2 years than in any other period in our history, totaling $20 billion. We believe we can deploy capital at a similar rate in '22, especially, as Marc described, the recent market volatility persists. Additionally, our committed-but-unfunded pipeline ended the quarter nearly $8 billion, primarily comprised of Lumen Technologies and the Venetian transaction.

Our near-term pipeline of potential transactions remains strong with Fund IX 78% committed at the end of the fourth quarter, and we have approximately $5 billion of dry powder to commit before the management fees from Fund X turn on.

More recently, with the rotation from growth to value over the past several months, Apollo's vision itself as a solution provider in the marketplace, providing a differentiated tool kit to our clients. The recent dislocation and heightened volatility should create attractive capital deployment opportunities across numerous investor areas of the firm. Our hybrid value funds, the credit franchise, broadly speaking, and our partnership with Motive allow us to provide creative, flexible solutions across the capital structure for companies in need.

Moving on to debt origination. Total originations surged during the fourth quarter, as Marc said, reaching $37 billion. The uptick in fourth quarter origination volume was driven by strong high-grade alpha, middle market direct lending and commercial real estate volumes.

Within high-grade alpha, a strategy where we can showcase our abilities as a solution provider, we generated particularly strong activity. In one notable transaction, we completed a $4 billion loan to SoftBank, secured by their second Vision Fund. Our ability to deliver this magnitude of capital in a relatively short time frame via discrete bilateral negotiation is exactly why our clients partner with us. You should expect to hear more about these types of large-scale transactions as our platform continues to expand.

Higher levels of origination volumes are also driving higher transaction fees in our capital solutions business. Fourth quarter and full year fees of $94 million and $298 million, respectively, reached new heights. And it's worth noting that we completed approximately 80 ACS transactions in 2021, which is double the volume we created a year prior.

As Marc touched on, we announced several new origination platform investments over the past few months that will help grow our supply of recurring origination volume. Importantly, Athene funded the equity commitment in all 3 of these investments as part of their normal course investment strategy, demonstrating the capital efficiency of our model.

One, we announced our pending acquisition of a controlling stake in consumer lender, Aqua Finance, which will extend our access to quality consumer loans. In 2021, Aqua originated nearly $2 billion of loans in the consumer arena, which represents a double over the past 3 years.

We also announced and closed our acquisition of Petros PACE Finance, a platform that provides significant deployment opportunity for Apollo and Athene to support clean energy real estate transactions. PACE has originated over $700 million in long-term fixed rate financing since 2016, and we expect rapid growth in that sector as the market expands and we confront sustainable construction and regulatory climate mandates.

Finally, an important transaction was our strategic announcement with BNP Paribas to create Eliant Inventory Solutions. Eliant provides domestic and multinational companies with strategic and responsive inventory capital solutions to better optimize their supply chain and balance sheets. Backed by strong client demand at launch, we expect the platform to generate a multibillion-dollar level of annual flows beginning this year.

These 3 platforms really are great examples of our broader fixed income replacement vision at work. While we are excited about the progress we've already achieved to broaden our origination, there is still significant runway to scale our existing platforms and fill in additional growth white space.

At the macro level, we believe the evolving interest rate backup will create tactical opportunities to position our client portfolios into more favorable higher-yielding assets. As the market confronts a potentially higher rate environment, financial conditions are indeed tightening and risk premiums are increasing.

For the last several years, there have been many -- there have been concerned about our ability to generate attractive returns in a perpetually low-rate environment. However, we always found ways to be successful and leaned into origination, and now we have an expansive ecosystem ready to capitalize on a market with potentially higher rates and certainly higher risk premiums. As we've said before, the fixed income replacement trend is just getting started, and we are certainly well positioned regardless of the rate environment.

Moving on to monetization activity. We had another strong year of realizations totaling $4 billion, including more than $3 billion from our private equity platform. For the full year, private equity realizations reached an annual record of $19 billion, as Fund VIII and, increasingly, Fund IX are in harvesting mode. Looking forward, we expect our realizations super cycle to continue. That said, if the current market correction persists, some of our planned term realizations may be pushed out to later in the year.

Turning to investment performance. We had a strong year of performance across our entire franchise. Our private equity portfolio appreciated 48% in 2021, outperforming the S&P by over 20%. And additionally, our flagship fund performance remains exceptional, with Fund IX generating a gross IRR of 48% and 30% net. And I'll mention, Fund IX's portfolio is still relatively young, and we believe there is a lot of embedded value still to come.

Our inaugural hybrid value fund continues to perform very well, generating a growth of 29% and 23% net. And in credit, our portfolio saw 1.6% of gross appreciation in the fourth quarter and more than 10% for the full year.

Finally, our structured credit debt origination strategies had particularly strong performance, both outperforming their respective benchmarks by a remarkable 1,100 basis points in 2021.

In terms of capital raising, total inflows of $24 billion in the fourth quarter were strong, bringing full year inflows to $67 billion. As Marc mentioned, we raised a record amount of capital from third-party clients in a non-flagship fundraising year with $23 billion of total inflows. Athene added $37 billion of inflows, including $9 billion in the fourth quarter alone.

Third-party fundraising in the fourth quarter totaled $8 billion, increasing from $5 billion average pace through the third quarter. And fourth quarter fundraising included healthy inflows from Accord plus, EPF IV, and our second infrastructure fund, which held its final close in the quarter.

Importantly, we launched the fundraising for Fund X in January and are encouraged by the early reception. We feel confident in raising our targeted $25 billion in capital and think our differentiated investment strategy, grounded in value while embracing innovation, resonates particularly well in this current market backdrop.

We successfully launched our nonlisted credit BDC, Apollo Debt Solutions, in November with a single platform in Asia and Europe, and expanded distribution to the domestic platform in the beginning of January. Early reception of our marketing efforts have been extremely positive, and we raised over $1 billion of equity proceeds to date since product launched 2 months ago. When our exclusivity period ends in March, we will broaden distribution to other wire houses, several RIAs and at the independent broker-dealer channel via our strategic distribution partnerships.

Additionally, we've invested heavily in product development and are currently working on several other funds tailored for the mass-affluent market.

In December, we did announce the agreement to acquire Griffin, which is strategically important in our accelerating our multipronged 5-year global wealth strategy. A year ago, we were more limited in our global wealth capabilities, but with the launch of ADS as well as Griffin, we now have proof of concept on product and distribution capability. When Griffin closes, which is expected to occur in the first half of this year, we will have roughly 130 people working across the platform.

With Griffin specifically, we expect to broaden our reach in the U.S. wealth market and independent broker-dealers, providing us with new foothold in that channel. We're continuing to add the resources and capabilities across various retail distribution channels in conjunction with the Griffin team.

In terms of our outlook for 2022, we feel comfortable meeting or exceeding our $80 billion organic inflow target that we communicated in the fall. We are seeing a robust pipeline in Athene and momentum across third-party fundraising initiatives, including a strong start at ADS, as I've previously mentioned, and incremental Griffin -- flow at Griffin gives us great comfort.

Looking back to 2021, we couldn't be more excited about the evolution of the franchise. We continue to expand the dialogue with our global investor base and continue to provide solutions to companies seeking to raise capital. We have leading returns in flagship private equity. We've launched nascent strategies with strong early performance and client traction, including hybrid value in the infrastructure equity business. Our yield platform is expanding along with the continued build-out of our front-end origination platforms. We're syndicating more dollars alongside a growing capital solutions business, and we're seeing increased demand for our third-party retirement services. We are excited to demonstrate meaningful progress against our goals, which we laid out in the fall.

With that, I'll turn it over to my partner, Martin, who will discuss our financial results.

Martin Bernard Kelly
CFO & Co-COO

Great. Thanks, Jim, and good morning. I'll provide a brief overview of our stand-alone results and then bridge to our 2022 outlook for the combined businesses.

Our full year after-tax DE of $2 billion was very strong and roughly doubled from 2020 levels, as Noah mentioned, driven by a sizable step-up in PE realization activity and mid-teens FRE growth. Management fees increased 14% year-over-year, which included more than 20% growth in our credit and real assets businesses. And transaction fees were up 19% year-over-year, while fee-related expenses grew 19%, reflecting our comp- and noncomp-driven investment for growth. Our full year FRE margin of 54% was in line with our expectations.

In mid-January, we filed a financial supplement containing historical information for our new post-merger segment reporting. And in late January, we filed an 8-K outlining merger-related updates and certain financial items.

Beginning in the first quarter of 2022, we will report results for 3 operating segments: asset management, retirement services and principal investing, with fee-related earnings, FRE; spread-related earnings, SRE; and principal investing income, PII, as their primary performance metrics looking forward.

Strong results by Apollo and Athene in 2021 provide us with momentum as we head into 2022, positioning us well to achieve our 5-year targets. As previously communicated, we expect after-tax DE of approximately $3.3 billion or $5.50 per share in 2022. We expect approximately 90% of these earnings to be comprised of highly stable and recurring FRE and SRE.

In our asset management segment, we expect the following trends to drive our FRE in the year ahead. Fee-related revenues should see attractive growth in 2022, with management fee growth around the mid- to high-teens level, and our plan suggests transaction fees growing at a faster pace than they did in 2021.

In terms of fee-related expenses, as you know, we have been making significant investments in talent and infrastructure to drive higher FRE growth and capture the next significant leg of growth we believe is attainable. We've made many great additions across our platform and continued to attract high-caliber individuals. We are managing this growth in the context of the glide path we've laid out, which is for our comp ratio to start moving from roughly 30% toward our longer-term target of 25% over the next 5 years.

On the non-comp side, we are in the midst of rebasing in 2022 as we absorb the infrastructure costs, including technology and occupancy of supporting our larger team.

Putting the pieces together, we expect an FRE margin of approximately 54% to 55% in 2022, putting us on a path higher towards our 60% plus goal by 2026. We expect this will drive at least $1.4 billion of pretax FRE in 2022 or $2.35 per share.

In our retirement services segment, we are on track to deliver our 2022 objectives outlined at our Investor Day. We expect low double-digit growth in net invested assets, driven by the healthy organic growth expectations that Jim mentioned.

From these assets, less fully loaded funding costs and overhead, we expect the segment to generate a net spread of approximately 110 to 115 basis points. This spread translates to pretax SRE in excess of $2 billion in 2022 or approximately $3.35 per share.

Embedded within this earnings profile is an expectation for a normalized return on Athene's alternative investments of approximately 10%, following a particularly strong return in 2021 amidst a robust market backdrop.

In our principal investing segment, we believe we have a favorable tailwind at our back from having 2 flagship private equity funds in harvesting mode. Though as Jim mentioned earlier, the timing of realization can be impacted if the market correction persists.

Our best expectation for the income contribution in PII heading into a new year is to align around our forecast over a multiyear horizon. This equates to approximately $500 million of pretax income or $0.80 per share on average over the next 5 years.

You should think of us as net beneficiaries of a rising rate environment. Jim mentioned the opportunities created by a higher-rate environment, which we believe will benefit FRE. The only part of our revenue that is susceptible to a decline from rising rates are management fees earned from net asset value rather than committed or invested capital.

Historically, the most notable pool of assets with this basis was Athene's fixed income assets. Following a recently agreed-upon adjustment to the investment management agreement with Athene, our basis for earning management fees will now be book value for the vast majority of Athene's assets. This change will serve to mitigate management fee volatility from changes in rates or spreads.

Further, with regard to potential SRE impacts from rising rates, approximately 20% of Athene's portfolio is in floating rate securities. While there are some offsets, we would expect a 25 basis point parallel shift up in the curve to drive an incremental $30 million to $40 million of annual SRE, representing low single-digit accretion on distributable earnings.

Turning to capital allocation. We expect to generate $15 billion of capital for investment over the next 5 years as we discussed at our Investor Day, which is illustratively earmarked as $5 billion of capital to fund our expected annual base dividend of $1.60 per share, $5 billion of capital for dividend increases and opportunistic share repurchases and another $5 billion of growth capital. The impact of the latter $10 billion is not reflected in our base targets.

While we will evaluate opportunities on a case-by-case basis, we will most likely look to deploy the majority of the growth capital towards strategic ventures in the near term that will accelerate FRE growth.

We declared a dividend of $0.40 per share in the fourth quarter and have allocated approximately $1 billion to fund the annual dividend under this policy in 2022.

In conjunction with the merger close, we announced a $1.5 billion opportunistic buyback authorization, along with another $1 billion for equity immunization. This new repurchase program provides additional flexibility to return capital to shareholders and drive accretion on an open-ended basis.

We intend to prioritize strategic growth investments given the pipeline we see, many of which we expect will drive additional growth in fee-related earnings above and beyond our base plan, recent examples of iCapital, Chase and incremental equity investment in Athora and our all-stock acquisition of Griffin.

To conclude and punctuate our overall message this morning, our business is firing on all cylinders. Our fundamental business drivers are reaching record levels, and we're making huge strides in pursuit of our strategic goals. We had a very busy and successful 2021, and we're well positioned to execute on our clear strategic vision and deliver results for our shareholders and clients.
With that, I'll turn the call back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Glenn Schorr.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Just a quick clarifier for, first, did you say FRE of at least $1.4 billion, this is like 17% growth in '22? I just want to make sure I heard right.

Martin Bernard Kelly
CFO & Co-COO

That's right, Glenn. Yes, $1.4 billion, which is $2.35 per share.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Okay. Cool. I guess a lot of people are asking on insurance, so let's start there. I guess it's a twofold, and it has to do with S&P and regulation. So S&P is considering changing some of its capital rules, specific for A and lower-rated securities and structures. So what impact would that have on the excess capital position you've been talking about at Athene? And then might as well, while we're talking insurance, to talk about any changes that you think might be brewing in terms of private equity ownership of life insurance, and whether or not there are changes coming. So I appreciate the twofold question.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Great. Well, it's Marc. Why don't I take a shot at that, Glenn?

So recall that in the last year, S&P has upgraded us to A+. And we hold substantially more capital than, I think, anyone else in the industry in terms of excess capital and reduced leverage.

S&P, we also hold, as you know, primarily an investment-grade portfolio. S&P is now going through a process to update its model for the first time in 10 years. There's a lot of back and forth in an active dialogue. I think it's early to know whether there will be changes to the amount of excess capital.

As a personal matter, it does not concern me. At the end of the day, we operate in an industry that is devoid of excess capital. We have been among the few. I mean, if you look at capital raised across the world, U.S. and Europe, at least, we've raised most of the capital in the insurance industry for the past decade. Anything that puts pressure on capitalization, we tend to be in [indiscernible] this area. Having said that, I don't expect much to come out of the S&P, but it's early days.

As it relates to private equity in insurance, what's interesting is this is a journey we've been on for 12-plus years. We have paid an immense amount of tuition. And others who are interested in following what we do will quickly find out that this is not a trade. This is a lifestyle. And you have to build the infrastructure capable of navigating that you operate in a regulated business.

But let's face it, all asset management business is a regulated business. We have a decade-plus of experience in working with regulators.

Capital coming to the industry is generally a positive. Capital coming out of funds that have limited lives for a long-term asset is not generally viewed as a positive. New players coming to the business who understand that the primary risk, that putting risk on an insurance company balance sheet through increased exposure to subordinated securities are going to find out that, that is not really going to be accepted broadly across the industry.

What Jim articulated as fixed income replacement, which is maintaining the credit quality of the business while trying to earn excess spread, I believe, is the right strategy, certainly for us and probably for many others. But I expect a lot of fits and starts on behalf of third parties as they try and figure it out.

Operator

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

William Raymond Katz
Citigroup Inc., Research Division

So maybe, Marc, one for you. One of the questions we're coming up against with the flattening of the forward curve expectations and credit spreads starting to widen out a tad. The natural question is sort of potential for a credit cycle. So I was wondering if you could sort of address how you think you're positioned for that. What would be the pros and cons?

And then for Martin, just a clarification. It sounds like you're at $5.70 for base earnings ex PII. Is that -- did I hear that correctly?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

So Jim and I will tag team on credit.

I'll start by pointing out that, look, we've been in a decade-long period where taking risk has been rewarded. And I didn't just mean my comments for equity. I meant that for credit as well.

We, as a firm, have generally not sought to position our portfolio that way. We have almost always been senior secured. And the way we have earned excess return is through origination or taking some amount of liquidity risk rather than subordination risk, credit risk or duration risk.

I believe we are well positioned in the portfolio for widening of rates and for credit cycle. And I don't want to belabor it because I think Jim lives this every day. So I'm going to flip it over to Jim to follow up.

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

Yes. I would just highlight, when we go through these origination platforms and people, really, they still ask us what do you mean by fixed income replacement? When we think about the Wheels Donlen platform that we aggregate over the last 12 months, this is a company that's been around for 50 years, and it's been time-tested through the cycle with virtually negligible defaults. And they really are a large-scale auto fleet finance business for many, many named consumer brand companies.

Likewise, our inventory finance partnership with BNP, this is just providing capital where, in the past, investors had not had access to it. These were stuck on bank balance sheets.

So when you talk about -- listen, we're students of the high-yield and loan and leveraged loan in distressed markets. We are one of the preeminent players in the world. There probably would be some spread widening in those businesses, but that is not what's on the Athene and regulated balance sheets. We've been a pristine investor in those areas, and the performance in terms of the low defaults would really reflect that positioning.

Martin Bernard Kelly
CFO & Co-COO

Yes. And Bill, the quick answer is yes. The numbers we're underlying today are consistent with Investor Day. We're on track. We're fully in line with what we laid out in October. So it's the numbers, $2.35, $3.35 on a pretax basis.

Operator

Our next question comes from the line of Brian Bedell from Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

You just -- first, if I could just start off on the spread-related business in terms of that rate sensitivity. If we do, maybe just some perspective of whether that sensitivity is linear on the 25 basis points. And if the Fed tightened much more aggressively this year, maybe just some thoughts on the cadence of how that would run through that P&L and then into next year, say, if we have, let's say, 6 hikes or something like that?

Martin Bernard Kelly
CFO & Co-COO

Yes, yes. Brian, it's pretty much linear. So there's some floaters with floors, but we're above the floor. So think of it as 25, now 100 is 4 times 25 on that rate sensitivity.

And in terms of how quickly that pulls through into earnings, about half of that is in 3-month LIBOR. And the other half is split between shorter and longer, 1 month and 6 and 12 months.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

And then just how many rate hikes are in your assumption for the -- for your '22 guidance on SRE?

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

We don't think about it. We think about the forward curve from where it is right now, but we're not -- we don't run our business with a view of 3 hikes versus 6 versus 7. That's for macro investors, but we're a day-to-day. We've had a floating rate experience for -- floating rate exposure around the size for the last several years. And it's just -- as I will remind you, we're duration mass on the overall assets and liabilities. So we're not taking rate bets, but we have a natural hedge because of our floating rate exposure.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Got it. Okay. That's good. And then just maybe on the retail strategy with Griffin. If you could talk about -- after you close that and we get into later this year and then next year, just talk about the integration, whether you're running your retail -- you're thinking of running your retail strategy mostly through that entity or rather, are they going to be more integrated into the Apollo retail wealth distribution platform? And any insight on where you think sort of your percentage of fundraising could come from the retail side.

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

Sure. As we've said when we made the announcement, Griffin will be fully absorbed into Apollo. We have 100% acceptance rate of all the individuals who we brought on.

In Investor Day, we laid out a 5-year plan to have almost 1/3 of our fundraising be out of that channel. And certainly, what this does in aggregate is probably bringing our plan for a good 18, maybe even 24 months.

I will also add, that has not gotten much notice, along with the distribution, we're taking on a $5 billion real asset vehicle that has a long established track record and a more nascent credit product for the independent channel as well. So people have not really brought those up, but certainly, those were benefits.

What we're finding is it's not just about having individuals, but it's the hundreds of selling agreements, the compliance agreements. The marketing infrastructure of launching and announcing a new fund, which they have 20 years of track record in doing so.

So we're extremely excited. We think it puts us -- when we think about where we were 12 to 18 months ago, it's a massive acceleration. We were very clear in our November meeting, our October meeting about what our objectives were, and we've really checked that off.

I would ask, the next question is going to be, so where are you going with products? And Marc laid it out, but I think it's really important philosophically, what most folks are doing today is really repackaging the institutional products for the global wealth channel. And we're certainly going to do that. We have a track record and a brand across our platform in all of our areas, equity, hybrid and credit, to allow us to be a very formidable competitor.

What you're also going to see and what Marc really touched on, which we're excited about and really plays across our platform, is the whole tax efficiency of these products. It's early days. But there really has been nothing done when one thinks about a lot of these products for high net worth individuals, there's not a great tax efficiency, especially in yield products.

So we're excited about when we think about the intellectual capital of bringing Athene and their distribution and their product packaging, along with Apollo and doing it in an integrated fashion, which is happening today. We think the future is very bright to apply that.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Maybe just continuing with the retail theme. I was hoping we could dig in a little bit more on the new private BDC that you guys launched. Maybe you could talk a little bit about how different or similar it is from an existing BDC that you guys have had for some of the years that is publicly listed. I guess to what degree is there any sort of overlap with folks that are overseeing the BDC that you've had in terms of investment professionals? Maybe you could talk about the investment strategy, how it differs. And how big of an opportunity could this be with the new private BDC that you guys have? How big could that get?

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

Well, Mike, we've been very clear in the last 3 years about large-cap direct origination. We were very vocal about it in '19 and '20. And certainly, with the advent of COVID, it's allowed us to do it. And as we said, I think at Investor Day, we talked about the multiple of billion-dollar commitments we made, in '19, a handful; in '20, about 20; and then the last year, more than 30.

But to answer your specific question, the credit universe is a wide spectrum. Our traditional business, as you know, we have mid-cap, a tremendous historic middle-market lender in the sponsor community. And that really is what our AINV strategy is doing today, a tremendous amount of overlap by that team.

We also run our credit business in an integrated front-end fashion. And as we do so, we've been very focused on saying that ADS is really going to primarily focus on large-cap sponsor origination and large-cap corporate origination. So we think it's best not to operate in a silo, to run as an integrated toolbox across all the things that we offer sponsors, large and small, as well as not only leveraged finance loans, but all the other tools in the toolbox, whether it's fund finance, GP finance or otherwise.

So to answer your question, we've been very clear, it's a large-cap strategy of ADS. We think very -- we think that's the way to go in terms of the future of the market and what's happening in terms of the dispersion and disruption of the syndicated market, and it works hand-in-hand in integrated fashion with our AINV team.

Operator

Our next question comes from the line of Finian O'Shea from Wells Fargo Securities.

Finian Patrick O'Shea
Wells Fargo Securities, LLC, Research Division

Can you talk about the opportunity for platform acquisition, such as Aqua and PACE this quarter? How -- for one, how attractive is that category versus other components of high-grade alpha in the context of what you have to pay up for it? And how much of that stuff is still out there for you to continue to grow into through acquisition?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

It's Marc, and I'll take a shot at it, and then Jim will fill in where I miss.

Think of origination as having 3 parts to it. One part calling effort, calling on large companies, the scale of our ecosystem. Remember, we have the largest private credit platform in the world, at least that I'm aware of, more than $350 billion. We have an incredible ecosystem. So we call on companies. And you've seen the results of that coming out of the things we've done with ADNOC, with Hertz and with so and so.

The second part of it is a -- just by being such a large ecosystem and capital market participant, we benefit from capital markets-originated flows, think of SoftBank as something coming to us as a result of capital markets.

The third is the notion of platforms. Platforms are companies that, in and of themselves, are attractive investments, but the business they pursue is the origination of credit, Wheels Donlen and so on and so.

So I believe we are still early days in the platform acquisition business. We have made significant inroads in fleet finance, in aircraft finance, in senior secured middle-market finance, in inventory, in franchise fees and a number of other areas. And I think what you will see is, yes, we will continue to go into new areas. But I think what you're going to see is the existing platforms get scale.

Just like Donlen and Wheels came together, I think you will see us this year, in particular, add scale to what we do. The resource commitment that we have in our internal FIG group, I predict our FIG and strategy group will be the size of our private equity group over the next few years. This is a full-court press, a full-time effort. Origination and recurring origination is among the most valuable things that we do.

One last footnote on it. When we buy an origination platform, the we is generally Athene, Athora and our institutional limited-partner clients. They like in buying an origination because this is a perpetual machine that generally produces relatively safe low teens recurring rates of return. In some ways, it is a perfect alternative for large sovereign funds and for large retirement services balance sheets.

But it is a twofer, not only do we get an attractive alternative equity investment, which generally is funded, as I suggested, out of the retirement services balance sheet and a limited partner capital, we also get origination. Some of that origination is absorbed internally in retirement services balance sheets and credit funds, and some of it goes external through our capital markets and syndication business. This is a significant feeder to our ecosystem. Every day, the reinforcement of the ecosystem gets better and better through these platforms.

Finian Patrick O'Shea
Wells Fargo Securities, LLC, Research Division

That's very helpful. And just a follow-up, if I may. I'm sorry if I missed this. Can you talk about the trade-off on the Athene fixed income mark-to-market fee arrangements? Did you have to take a concession on the fee for that exchange?

Martin Bernard Kelly
CFO & Co-COO

No. No. We've fixed it going through the close of the year. There's no impact.

Operator

Our next question comes from the line of Robert A. Lee from Keefe, Bruyette, & Woods.

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

Just wanted to maybe ask on Athora a bit. I mean, I know you feel very good about the long-term opportunity there, but it feels like it's been pretty quiet since last year or so. I know that you wanted to kind of put that platform into order once you acquire that big block of business.

But what are your thoughts heading into 2022? Should we be thinking that, that business, there's increased potential for more transactions coming out of Europe on that platform now that you've you spent this past year maybe investing in it? So just wanted to get some update there.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Great. Robert, it's Marc. I'll take a shot at this. I like your definition of quiet. The team in the room that works on Athora said they'd like to understand what busy is then.

So if you think about what's happened to Athora over the reasonable period of time, we obviously did a very large transaction in the Netherlands for VIVAT, adding some EUR 40 billion to the balance sheet. We also did add-ons in Belgium, and we did a de novo in Italy this year, so another EUR 8 billion to EUR 10 billion. That seemed like plenty for the year.

We are, as you suggested, absorbing. 2021 has been a year of absorbing. You should expect us to do a sizable capital raise at Athora at some point during the year. Apollo led that off with a EUR 250 million upsize in a safe, pending the future capital raise. What we're also starting to see is people turning themselves to new business.

Very often, what happens in -- particularly in something like the Netherlands, is it takes a while to understand exactly what the opportunity is on a go-forward basis. And so we've started to see the equivalent of a pension risk transfer market really develop in Europe.

In terms of what's going to happen in Europe this year, I believe it will be an incredibly active year. All indications tell me that there will be sizable blocks of business that change hands. The pickup in rates, in some ways, is actually helpful in reducing the embedded loss of a lot of these historic books of business to the legacy companies. So in short, I thought '21 was very active, but I expect '22 to be even more active on a go-forward basis.

And I'll make one final point. Whatever tuition needed to be paid in the U.S. over more than a decade, this is advanced chemistry. It is a much more complicated market. Solvency II is a much more complicated regime to operate in. Being able to speak both languages, RBC and Solvency II, is a huge advantage.

You're seeing it. Japan is moving towards Solvency II. Hong Kong and the rest of Asia, moving towards Solvency II. And you've seen us across the platform, not just in Athora, but also in Athene, be able to take the skill set of understanding how a Solvency II balance sheet works and do the first couple of reinsurance transactions in Japan for Athene. So I expect this to continue to be a very active area.

And more than you want to know, but the commoditization of publicly traded fixed income and the inability of traditional market participants to earn excess return in fixed income is the driver that is pushing the disposition of these blocks of business. And I think this is going to continue.

Operator

Our next question comes from the line of Alexander Blostein from Goldman Sachs.

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

So first, Marc, maybe just a clarification on the change in management fee calculation with Athene is going from market value to book value, what's the impact relative to the Q4 level? So maybe just kind of help us level set what the Athene management fee to Apollo was in the fourth quarter under kind of the new methodology and the old methodology.

And then when it comes to macro moves broadly, kind of heard your comments obviously around rising interest rates on SRE, but how should we think about sensitivity to wider credit spreads within SRE as well?

Martin Bernard Kelly
CFO & Co-COO

So Alex, there is no impact. There's no day 1 impact to the change in the fee basis. And as we go through purchase accounting and the fee cap process, book value converges to market value at day 1.

So they -- the book value sort of becomes market value and resets in new basis going forward. And so it's the same asset value that you're using to reference the fee rate. And there's no other adjustments to the contract. So that's pretty clean, I think, and straightforward.

And on the spread duration and the spread risk, I would think of that as having a similar profile to credit -- to rates. But obviously, it depends on turnover in the portfolio. Rates reset every month, every quarter. Spreads reset as you buy and sell security. So it's kind of more prolonged impact on the pull-through.

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

Got it. Right. Bigger picture question on fundraising. You guys sound pretty excited about 2022, $80 billion plus. Can you help break down what the latest assumptions are for maybe Fund X?

And then, Jim, to your point around potential upside to that $80 billion number, where do you guys see the areas of potential upside?

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

Well, I mean, I think we've been pretty clear over the last several months that we've been out in front with Fund X flagship, $25 billion. And Scott and the team are focused on that as the #1 priority. But we have a variety of other institutional products between yield. And hybrid EPF is out there right now. Accord plus is out there right now. And so we're excited by the breadth of that.

And certainly, when we think about what global wealth can do this year, we look at that contributing -- in the past, it was sub-5% to 10%. And I think you're going to see in a number north of $5 billion or $6 billion on the global wealth front in addition. So we've got a lot of cylinders humming in the fundraising. And as we said, $23 billion in '21, ex the flagship, that's what gives us great comfort and confidence.

Especially, I would add, what's really going on here for us, I know there's a tremendous amount of questions about rates and the curve, which are all critical to us. But what it really means for us, it's the repricing of equity risk premium.

And as Marc talked about, we've been in a decade where price didn't matter. And for us, as our strategy, all of this volatility in repricing risk premium, this is front and center of benefit of how we run our PE business. We're the classic leader in that global business, in that field when there's market dispersion, hybrid value, tremendous product in that area as well.

So we feel very, very comfortable with it. If the macro moves, like we believe there will be more stock dispersion and what you've seen happen in certain growth areas, we just feel like that really plays right into our strategy.

Operator

Our next question comes from the line of Rufus Hone from Bank of Montreal.

Rufus Hone
BMO Capital Markets Equity Research

Great. I wanted to ask about retirement services. And I was hoping you could discuss your thoughts around where you think the ROE of Athene can get to over time, and particularly as you bring on more third-party capital and as you get the tailwind of higher interest rates feeding through to higher on the margin spreads.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

I'll take a shot at it. It's Marc. So for the -- from inception, Athene produced about a 17.7% return on book value. We continue to underwrite business, and we underwrote business in '21 at north of 15% cash on cash. Our target in retirement services is that mid-teens rate of return on a sustainable basis.

And we really -- rates themselves don't really matter. And I'm not even convinced spreads matter because the market adjusts to the pricing of new liabilities get added in the context of a competitive market.

The ability to source assets is the primary driver of the growth and profitability of retirement services. And so what we have done is we have, as you've been hearing for this call, made a massive bet over many years on origination that you're seeing that come to fruition and the kind of origination that benefits retirement services balance sheets. By going to third parties and opening up to third parties, that is a win-win on both sides.

We also run a prudent diversified book. And we have absolutely no problem syndicating to other insurers, to other money managers and to other clients. For us, we get more flow, we get more diversification, we continue to build our ecosystem, and we get plenty of product to satisfy the internal needs from Athene and from Athora and from the various credit funds.

On the other hand, if you're a client, you have the opportunity to invest side-by-side with us in an aligned fashion as -- where we're a principal, not just a broker, not an asset manager. Alignment is an unbelievably powerful tool in this particular area, and I think we're seeing the benefits of that.

Operator

Thank you. We have reached our allotted time for questions. I will now turn the floor to Noah Gunn for any additional or closing remarks.

Noah Gunn
Managing Director & Global Head of Investor Relations

Great. Thank you. Really appreciate everyone's interest in Apollo this morning and participating in our call. If you have any questions on anything that we discussed on the call, please feel free to reach out to us. And we look forward to speaking with you again next quarter.

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