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Presentation

Operator

Good morning, and welcome to Apollo Global Management's Third Quarter 2023 Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

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

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

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

Noah Gunn

MD & Global Head of Investor Relations in New York

Great. Thanks, Donna. And welcome again, everyone, to our call. Earlier this morning, we published our earnings release and financial supplement on the Investor Relations portion of our website. We reported strong third quarter financial results which included record quarterly FRE of \$472 million or \$0.77 per share and record quarterly SRE of \$873 million or \$1.43 per share. Together, these two earnings streams totaled \$1.3 billion in the third quarter, increasing more than 30% year-over-year and reflecting solid execution from both our asset management and retirement services businesses. Combined with principal investing income, HoldCo financing costs and taxes, we reported adjusted net income of \$1 billion or \$1.71 per share, up 23% year-over-year.

Joining me this morning to discuss our results and strong relative positioning in further detail are Marc Rowan, CEO; Scott Kleinman, co-President; and Martin Kelly, CFO. And one quick plug before we proceed. In a couple of weeks on the afternoon of November 14, we will be hosting a deep dive presentation on our platform origination strategy, a top area of investor focus, which will provide insights into various platforms and detail how, in aggregate, we believe they provide a competitive and sustainable advantage to Apollo in sourcing excess spread. A live video cast of the session will be available through our Investor Relations page.

And with that, now back to our regularly scheduled earnings programming. Marc?

Marc Jeffrey Rowan

Co-Founder, CEO & Director

Thanks, Noah, and good morning to all. Another great quarter amidst interesting financial markets and certainly a challenging year for many in our industry. Just to highlight performance. Quarterly FRE, up 29% year-over-year. Quarterly SRE, 36% year-over-year. Margin expansion, 3 quarters in a row now. Inflows for the third quarter, \$33 billion, \$125 billion year-to-date. Deployment, \$36 billion, fundamentally momentum on both sides of the business.

Our business model is very robust, as I will track for you. We expect another \$30 billion plus/minus of inflows for Q4, bringing total inflows for the year to \$150 billion. The momentum we see in the business tells me we will have an on track continued good performance heading into Q4. Obviously, quarter is not done yet, but everything we see tells us the momentum will continue.

In Global Wealth, which I'll just do a quick shout-out to, given how hard the team has been working, there are now seven perpetual wealth products in the market today. Scott will go through this in detail. And just to close out, origination volume tracking, north of the \$100 billion on an annualized level.

Fundamentally, everything in the business is working, and I believe we're set up appropriately to benefit from the current market. Almost everything in our business works better with higher rates. Credit, as you know, is a much bigger part of our business mix than most of our peer group, something we've built over a long period of time. And to remind you, we are focused on senior secured top of the capital structure. This is a big difference between what people normally think of as private credit and otherwise. But we want a business that lasts, one that has duration, one that is set up for a difficult economy, notwithstanding all the positives happening in the credit market.

To give you a sense, impairments at Athene, at or below last year's level. We expect for the year and year-to-date, notwithstanding some back and forth quarter-to-quarter. Fundamentally, the book is in very good shape.

On the equity side of our business, purchase price matters, which is our strategy, has really paid off. Many -- there's lots of dry powder in the equity business in private markets. But many people are sitting on the sidelines. They have no idea how much of their existing capital is going to need to be used to solve problems in their existing portfolio, to get refinancings done. Purchase price matter, and being disciplined over the past decade has left us with a very small number of situations that will require fixing. And therefore, we have been on offense, tremendous deployment, which Scott will detail in our private equity business and in our hybrid business.

If you like something now in the equity business, given all the geopolitical implications, given the concerns over recession, given the high rate environment, given what is generally very difficult financing conditions, you really like it. On the margin deployment into the equity business, I think for all of '23, we'll prove for our industry to be very, very attractive.

So what's really happening? Let me step back and give you my view at least on what I think is happening in markets and in private markets. And I'll start -- I look at my career, which is now 39 years, and I think we have benefited from four tailwinds over this period of time. We've had rates generally going from high to low. We have printed a massive amount of money. We have borrowed forward future demand through fiscal stimulus and fiscal borrowing. And we've had the benefit of globalization. It does not surprise me with those four tailwinds that risk assets, equities, growth, real estate, things like that did really well.

But I ask myself, are any of those four things true today? I think there's an argument as to whether there are headwinds or just the absence of tailwinds. But everything that I see tells me that we -- looking backward is not likely to be a good indication of what needs to be done going forward for investment success. In particular, looking backward over the past 10 years, which I view as an absolute aberration, will not be a good guide going forward. And the strategies that performed over the past period of time with these tailwinds are not going to perform in the new environment that we have.

I also think there have been fundamental changes that have happened to markets and market structure over the past years as well. The most significant of which happened in 2008. 2008, we came very close to an absolute debacle in our financial system, and the rules of how our financial markets work were fundamentally rewritten. We, not just Apollo, but all of us, we just didn't notice because right after we changed the rules, we printed \$8 trillion, and everything went up into the right. Well, now that we are no longer doing that, now that rates are up, now that there are headwinds, we are starting to notice some of these changes. And I'll stick to three, and I'll talk about their implications.

One is liquidity, public market liquidity. By some estimates, dealer capital. Capital that facilitates trading is roughly 10% today of what it was in 2008. Markets are 3x their size. That tells me we have just less liquidity in public markets. We have already seen the first complete breakdown of functioning in market, which was U.K. LDI last year. It will not surprise me going forward to see liquidity challenged, public markets challenged, and investors beginning to understand that liquidity only exists on the way up and does not exist on the way down. We should expect a more volatile, less liquid world in public markets.

The second is the role of banks, not just in our economy, but in economies around the world. Dodd-Frank, in theory, was targeted at constraining the power of the four big banks in the U.S., following the financial crisis, but the banking system in general. Guess what? It worked. Banks today in the U.S. markets are

roughly 20% of debt capital to consumers and businesses. All of you, investors, now supply 80% of debt capital to businesses.

In addition, the changes that are now proposed to occur following the debacle at SVB and First Republic and Credit Suisse, will further lead to de banking. When regulators ask banks in the U.S. to put up 15% more capital, they're asking the banks to shrink or to shrink lines of business. When Europe moves from Basel III to Basel IV, they're asking banks to shrink. This is happening around the world. Debanking is not something that is periodic. It is that it's very early infancy. It does not mean that banking is a bad business. It does not mean that four big banks don't have amazing businesses. They do. But it means on the margin, they will continue to play less and less as a percentage of the total and you investors will play more and more. That tells me as investors that you will see over the next decade a series of financial products that you've never seen before because they have historically been resident only on the balance sheets of large banks, and they are on their way to you as investment product.

And the third that I focus on is this notion of indexation and correlation. 80% of volume today of trading is S&P 500 .60% of our markets are ETFs. 10 stocks make up nearly 35% of the S&P 500. These 10 stocks are responsible for 100% of year-to-date returns. These 10 stocks have traded between 52 and 44 PE over the last few weeks. Not many of you come in every day looking to buy 50 PE stocks, yet we feel really comfortable with a massive portion of our country's retirement system assets and fiduciary assets in 50 PE stocks. We have literally never had so much concentration in so few instruments since the NIFTY 50 going back and predates my career.

But if one looks at the data from that period of time, a decade later, investors lost nearly 90% of their money. I'm not saying that's what's happening here. What I'm pointing out is we had this perception historically that public was safe and private was risky. I ask, is that even the right framework to think about how market structure today? Is public safe and is private risky? Or are both -- public and private, both risky and safe? I do think that, that is the conclusion and that's where investors will move to.

Let me dig in a little bit on private credit. Private credit is the flavor of the day in our industry. You can look at press mentions. You can look at all the articles. You can look at what our colleagues and peers have had to say on their various calls. Private credit for us has been the mainstay of our business. We are nearly \$500 billion in private credit, away from the 2,600 people who work in Apollo Asset Management and the more than 2,000 people who work at Athene. There are 4,000 people at Apollo who do not carry an Apollo business card, who work at 1 of our 16 platforms that Noah referenced, where we will do a deep dive. And their job every single day is to create credit, create private credit, which I'll come to. And that's what they come in and do every day. We've assembled this over the last decade plus or between \$6 billion and \$8 billion. Truthfully, our ecosystem is second to none in this business.

As I mentioned, I believe we are in the first inning or the infancy of private credit. Private credit is a secular trend, and it follows the debanking that I mentioned, and it is not just a U.S. phenomenon. It is a worldwide phenomenon. We have, to date, as a financial press and as an industry, talked about private credit as if it meant to be -- if it is levered lending, sometimes called direct lending, was private credit.

Let me tell you. This is a fraction of a fraction of what debanking will produce. This piece of the business of lending to buyout sponsors, sometimes it's a very good business. It is about to get commoditized. Lots of capital is coming to this area. There are low barriers to entry. And investors understand this. They are moving toward firms that have established ecosystems, that have long track records of risk and reward, that will not chase the hot dot in this market because, yes, there will be a hot dot in this market as well.

When I talk about private credit, I'm really talking about the secular change as a result of debanking. I start with the notion that everything on a bank balance sheet is actually private credit. What we've seen so far and what the press is focused on is levered lending, which, as I said, is a fraction of a fraction. I think we're going to be talking about this for the next 10 years. And the vast, vast majority of what we're interested in private credit is actually investment grade. The difference between where we are today and where I think we will be is all about education and nomenclature.

Investors are being asked really challenging questions today. Is a single A-rated private security an alternative or fixed income? Sometimes I can stop a CIO at a big fund for an hour with that question. If

it's an alternative because it is private and that's how they think about the world, they're not going to buy it because they need 15% to 20% rates of return out of their alternative bucket. But if it is fixed income because it is rated the same as fixed income and it offers 200 to 300 basis points of excess return for the same risk, institutional investors, family offices, wealthy individuals should be able to tolerate some degree of illiquidity if they're getting paid for it, particularly if I go back to my secular themes of liquidity is not so good in the public market. Most of what's out there has been commoditized. I do think this is our future. I do think we, as a group, will be talking about private credit, and I expect the conversation to become much, much more sophisticated.

Away from the business, I sometimes joke that we raise money, we invest money and we compensate people. The raising of money, the investing of money seems to be in very good shape. I'm fortunate that Scott and Jim live and breathe this every single day. I, therefore, get to focus on compensating people. And it's not just compensating people, it's also about the culture. As I've said previously, our north star is to build the best partnership and financial services. If we can be the best place for our 200 partners to work, we will retain their judgment throughout their whole career. We will also send a message to our next generation of principals, that partnership at Apollo is what it's all about. And then throughout the organization, younger people entering our firm, no matter how hard they are working, and they are working hard, and I thank you, you will have two amazing generations of mentors to teach you the business. This is the ecosystem that we're trying to create.

We also are trying to do something for shareholders. We understand that shareholders value more highly those things that are highly predictable, FRE and SRE; and value less highly those things that are volatile, PII. Just look at this year where FRE and SRE are up nearly 30% each; and PII reflecting market conditions, is down very significantly from what we would expect as a long-run average.

Our goal, over time, is to pay our people more PII and less FRE and SRE, and that is the trend we are on. At our Investor Day some 2 years ago, we laid out a trajectory of how we're doing. Today, Martin will update you and tell you we are not only on that trajectory we are now pivoting to actually exceed that trajectory. What Martin will detail for you is not just a financial transaction, but also focused on the next generation of leadership.

We have, and as Martin will detail, decided to fundamentally change the compensation for four of our next generation of leaders. These are not the only leaders who, in my view, are capable of the next generation, but they are four who are very visible within our organization: Matt Nord, David Sambur, John Zito and Grant Kvalheim. All four of them have taken on increasing amounts of responsibility over the years. They now see -- not just oversee their individual departments, they oversee massive pieces of our firm that are integrated.

And as such, we've decided to compensate them substantially in stock. That does not necessarily mean more, it just means different. What we've decided to do is to take the compensation of FRE and SRE and PII that they would have received and replaced a very large portion of that with stock so they are aligned with Jim and Scott and myself, but also with all of you. This will create room for us to further give that PII that those four individuals hold to others in our firm in our constant battle and our constant direction to keep more of the FRE and SRE for the house and less of the PII.

And that, I believe, is how it should be. Employees, particularly our partners, are well suited to understand PII and to bear the volatility. Up good and bad of PII, I believe this to be a good outcome for shareholders. I view it as a good outcome for me personally. And I know Jim and Scott view it as a good outcome for them. Having everyone aligned and being paid in the same way, extraordinarily important.

I will also tell you. We are committed to immunizing the stock that we intend to grant, and Martin will detail that for you as well. So Noah is already tapping his watch and telling me that my time is almost up. Fundamentally, we are on track to hit our 5-year plan. Athene, as you know, has already exceeded its 5-year plan. Of the 3 big bets that we laid out, capital solutions in 2 years has already hit its 5-year plan, origination and global wealth are well on track to meet their 5-year plan. So fundamentally, we're confident to meet or exceed the goals that we laid out in our first 5-year plan, and it feels almost like it's time for the next update. There are so many interesting things happening in asset management, so many

interesting fundamental changes in market. And so we are committed to hosting our next Investor Day later in '24, which Noah will detail, to really talk about where we go from here.

With that, I'll remind you, the goal that we're after, deliver the targets that we've told you, plus a little, while maintaining our culture. We are not seeking to be the biggest. We're not seeking to be the fastest growing. We're seeking to build something that is sustainable over a very long period of time.

With that, I'm going to turn it over to Scott.

Scott M. Kleinman

Co-President of Apollo Asset Management Inc. & Director

Thanks, Marc. Unlike many in the industry, the current market backdrop marked by higher interest rates, heightened volatility and economic uncertainty is where we thrive. It's good for our core investing businesses where we are asset selectors with a value orientation, not momentum or volume traders. It's also good for Athene's business where higher for longer rates drive more volume and better profitability. And it can be good for our capital solutions business where companies can access creative financing solutions when traditional sources of capital are less plentiful. This is the true power of our aligned asset management and retirement services business model, which should only increase as we continue executing on our growth objectives.

As you've heard us say before, the foundation of our business is providing excess return per unit of risk, and this is evident in our strong investment performance. In the yield business, our corporate credit, structured credit and direct origination strategies all appreciated between 3% and 4% in the quarter and between 12% and 17% over the last 12 months. We've seen particularly strong performance in certain underlying strategies, including Apollo Debt Solutions, which posted a total net return of 16.5% for Class 1 shares over the last 12 months. Performance in our hybrid value franchise also remains robust, with the portfolio appreciating 4% in the third quarter and 11% year-to-date.

And in private equity, our flagship strategy appreciated 3% in the third quarter and 16% over the last 12 months, including 22% LTM for Fund IX specifically as the underlying portfolio companies continue to generate healthy earnings growth and are actively managing inflation by achieving greater operational efficiencies. The portfolio is well diversified and has an average purchase multiple of slightly over 6x offering significant downside protection should economic conditions worsen.

In terms of investing activity, we remained active during the quarter, putting \$36 billion of capital to work across the platform. Investing activity across the yield platform accounted for the vast majority of capital deployment in the quarter as we continue to capitalize on two primary interrelated themes: global debanking and lack of public market liquidity.

Our ability to provide scaled capital solutions with flexibility and certainty has made us a lender of choice in today's backdrop. With that said, we're picking our spots and remaining highly disciplined in our underwriting criteria, given the potential economic pressures of interest rates remaining higher for longer. This is a playbook we've used time and time again: strong defense during times of uncertainty, leading to effective offense during periods of dislocation.

For our hybrid business, the pipeline of deployment opportunities is also expanding. Sponsors and corporates alike are seeking structured financing alternatives to access liquidity and refinance capital structures, which is driving heightened demand. This trend is especially evident within our hybrid value strategy, where the deployment pace in our second vintage has been strong as well as our S3 business, where we've invested more than \$1 billion of capital into equity and hybrid solutions so far this year.

And in private equity, we remain very busy with capital deployment activity reaching \$11 billion over the last 12 months. With reductions in broad market valuations, we're seeing a wider opportunity set that fits our strategy, particularly in take privates and carve-out transactions.

As a leading franchise with a long-standing track record, we remain confident in our ability to source financing, deploy capital and appropriately capitalize during challenging market environments, which was recently showcased by the sizable closings of Univar and Arconic in August.

Moving to our capital raising results. We generated \$33 billion of total inflows in the quarter, primarily comprised of the \$13 billion of inflows from Athene and very strong third-party fundraising of \$14 billion. Investor preferences have shifted in favor of credit over the past year, and we've been capturing this demand through our full product suite spanning corporate credit through total return and Apollo Debt Solutions, go anywhere opportunistic credit through Accord and Accord Plus and our newly-launched asset-backed finance franchise. All of these are important to our growth objectives in the yield business over the next 12 months and beyond, which will position us with even more dry powder for what we expect to be an attractive credit investing backdrop.

Additionally, we spent a lot of time and resources positioning ourselves for the next wave of growth in our asset management business, which we've discussed as concentrated in six complementary areas where we believe we have a competitive edge. Fundraising for these initiatives accounted for more than 25% of total third-party capital raised in the third quarter, including capital for direct origination and multi-credit sidecars and for AAA. We also expect to hold closes for our inaugural equity secondaries and clean transition equity funds over the next couple of quarters, which are two exciting areas of expansion within our equity business. And of course, an important component of our capital raising efforts this year and going forward is everything we're building in Global Wealth. This area continues to be a steady march for us as we roll out product, expand distribution, invest in technology and continue to educate the marketplace. We believe all these components have led to a differentiated platform offering for several reasons.

First, excess return. As I mentioned earlier, our primary goal is to drive excess return per unit of risk for our clients through our tailored product suite, individual investors get to the same sourcing and underwriting resources as our institutional clients and our own balance sheet.

Second, customization. Individual investors consume product in a different way. To meet this need, we've taken institutional-like offerings and adjusted them into structures for the retail market and, in some cases, design products specifically with the individual investor in mind. We offer seven families of perpetual products today for both U.S. and non-U.S. global wealth investors and have a handful more in the pipeline.

Third, education. We believe the benefits that alternatives bring to a diversified portfolio are still widely misunderstood by retail investors and are often equated with high-risk, high-fee products. To combat this mischaracterization, we've leaned in on education through Apollo Academy, which recently crossed the 1-year mark and has more than 10,000 financial professionals registered as members.

And lastly, commitment. As a leadership team, we've made an internal and external commitment to this initiative, which has translated into a couple of important benefits, including allocation of resources, both organically and via M&A, and with speed to market that allowed us -- that has allowed us to grow as quickly as we have.

Despite all the progress we've made thus far, it's still early days, and we see a long runway of growth ahead of us in what we view as a massive addressable market. Given our emerging growth prospects relative to more mature wealth platforms, we feel confident in our ability to drive this continued growth, even if faced with a more challenging retail market backdrop.

Turning to Athene. Organic inflows totaled \$13 billion in the third quarter, bringing year-to-date inflows to \$44 billion. Retail annuity sales drove half of the quarterly activity with businesses that were under -- with business that was underwritten to very strong returns. Volume has been increasing in that channel to begin the fourth quarter with approximately \$2.5 billion of annuities sold in October.

In flow reinsurance, Athene is continuing to see a steady build in volumes driven by new distribution partnerships in Japan and the U.S. as well as strong volumes from existing counterparts. We expect flow reinsurance inflows to exceed \$10 billion this year, implying healthy inflows again next quarter.

For pension group annuities, despite the low inactivity in the third quarter, we see a solid pipeline of opportunities, including one deal that already closed in October. It's worth noting that this business now has generated \$50 billion of cumulative volume since Athene entered the channel in 2017, leading the

industry during that time frame. Based on the momentum we see across Athene's business, we remain on pace to generate \$60 billion plus of total inflows this year.

So with that, I'll turn the call over to Martin to go through our financial results.

Martin Bernard Kelly
CFO & Partner

Thanks, Scott. And good morning, everyone. So as Marc previewed, we reported another very strong quarter of results as we continue to execute against the financial targets we laid out at the beginning of this year. Markets have changed quite significantly since then, marked by even higher interest rates and increased economic uncertainty, yet we've remained confident throughout 2023 in meeting or exceeding our initial financial targets for the year as further evidenced today.

With these results, we believe that we're beginning to gain recognition for the predictability, consistency and differentiated growth of our earnings profile anchored by our two primary earning streams: FRE and SRE.

I'll address five topics in my remarks today: one, earnings growth and outlook in our asset management business; two, the financial impact of the compensation awards we announced today; three, earnings growth and outlook in our Retirement Services business; four, credit performance in Athene's portfolio; and five, capital allocation priorities.

Starting with our Asset Management business. Our 7% increase in quarterly FRE continued to be driven by solid revenue growth and expense discipline. Year-to-date, FRE revenues are higher by 25% against a 21% increase in FRE expenses. Our Capital Solutions business achieved a new high in the third quarter amid a robust year of growth. We're very pleased with the expansion of this business, which is on track to meet its 5-year revenue plan in just 2 years. We'll spend some time during our platform origination presentation on November 14, discussing the breadth of this business, and its importance to our fixed income replacement strategy.

Specific to Fund X in the quarter, management fee growth of 5% included a \$24 million catch-up for Fund X and its final close with Fund X fees in the quarter being \$14 million higher than the prior quarter, considering catch-ups in both quarters.

Our focus on scaling the asset management business is evident in our compensation costs, which were flat in the quarter and up 14% on a year-to-date basis. Underpinning this is a moderation in our headcount growth and an emphasis on building our team in India, which recently crossed 500 employees or close to 20% of our total headcount.

Our noncompensation costs are in their last year of sizable growth, reflecting a step-up in our investments in global real estate, technology and product distribution. Combined, this has driven strong positive operating leverage, resulting in more than 150 basis points of margin expansion year-to-date versus the prior year period. Based on our visibility into the fourth quarter, we remain confident in achieving 25% FRE growth in 2023, as previously communicated.

Looking ahead to 2024, we expect FRE growth between 15% and 20%, consistent with our FRE growth expectations in a year without a flagship PE fund raise. The outcome is somewhat dependent on the environment with current expectations around the middle of that range. This outlook is guided by a strong fundraising outlook, or holding more than \$45 billion of uninvested capital with management fee potential. Our current plan to repeat the very successful year in Capital Solutions in 2023 and low double-digit expense growth. We anticipate a further approximate 100-basis-point improvement in our FRE margin next year as a result.

The compensation awards we announced today amount to approximately \$550 million of award value at grand equating to approximately 1% of our share count and include two components: one, for senior leaders, the exchange of the majority of existing and expected future compensation in the form of FRE, SRE, carry and stock for newly issued vested stock. And two, the reallocation of those savings and the expected issuance of a modest amount of additional carry to other employees and a further exchange for

FRE in stock. This exchange and reallocation is accretive in value, and we expect will create an opportunity for further reduction in our FRE compensation ratio, which we currently believe will be around 23% by 2026 before further reallocations. It will also create a reduction in stock that we expect would have otherwise been issued and will increase our cycle average PII compensation ratio to an expected range of 65% to 75%, outcomes that we believe are well aligned with shareholders, as Marc described.

Turning to our Retirement Services business. We generated SRE of \$873 million in the third quarter or 168 basis points of net spread. This included some offsetting items that when adjusted for resulted in normalized SRE being roughly in line at \$879 million. In terms of balance sheet growth, net invested assets ended the quarter at \$208 billion, down \$6 billion versus the second quarter, reflecting the buy down by \$8 of -- \$7 billion of organic inflows from the first half of the year and the \$3 billion transaction with Venerable, more than offsetting positive net flows within the quarter.

Invested assets attributable to third-party investors in ADIP now exceed \$50 billion, representing 20% of Athene's total invested assets. As third-party capital, ADIP has multiple benefits, including validating Athene's business model, providing capital support, driving greater profitability on business retained and enhancing AGM's overall group capital efficiency. We expect to close out 2023 with a normalized SRE growth rate exceeding 30%, reflecting our expectations for strong organic inflows in the fourth quarter, a lower core outflow rate, ADIP growth participation and a normalized net spread of approximately 165 basis points in the fourth quarter.

As you are aware from comments we made when we issued the mandatory convertible preferred stock in August and as evidenced by our retirement services business exceeding its 5-year earnings target in 2 years, we have benefited both from meaningfully higher volume growth and asset returns. It is imprudent to budget the continuation of that growth rate.

Having said that, we continue to expect low double-digit normalized SRE growth in 2024 after adjusting for the ADIP buy down and Venerable recapture driven by: one, continued scaling of asset growth due to an abundance of organic growth opportunities across our four business channels. Cumulatively, we expect that to be at least \$70 billion in 2024.

Two, funding this growth with existing capital resources, including third-party ADIP capital; and three, on spreads, expected normalized net spreads of around 165 basis points for the year assuming the current forward curve. And as a reminder, higher rates benefit our floating rate assets and achievable return on our underlying capital. Athene supports every dollar of liability growth with approximately \$0.08 to \$0.10 of capital, which we invest alongside the dollars of cash taken in from policyholders. So while Athene continues to underwrite new business to historical targets of around 115 basis points or better at the product level, beyond the margin SRE spread is much higher in the current environment, closer to 170 basis points year-to-date.

As it relates to our credit quality, Athene's portfolio continues to be in a very strong position. Total impairments over the last 12 months have amounted to just 13 basis points, close to Athene's long-term average. Athene's investment portfolio is concentrated in high-quality senior secured assets with an approximate 95% allocation to fixed income, of which 95% also is rated investment grade. It's noteworthy that Athene's credit losses have been disproportionately concentrated in investment-grade corporate bonds purchased in the market as opposed to private investment-grade credit that we originate, underscoring our confidence in the credit quality of originated credit. We believe that Athene has the most transparent financial disclosure amongst its peers. And in line with that philosophy, Athene began publishing historical credit losses in their fixed income investor presentation last quarter, which will be updated in conjunction with our next call, next week on November 9.

As it relates to capital allocation, the construct we laid out 2 years ago at our Investor Day remains largely intact with delays in exiting private equity investments impacting the timing but not the expected quantum of carry to be generated. Meanwhile, Athene has been maintaining its consistent dividend up to the holding company in a significantly more attractive growth backdrop amid rising rates. To support this, we've increased participation from ADIP and issued the mandatory convertible preferred stock in August, the proceeds of which were downstreamed to Athene.

At the same time, the sheer number of organic growth opportunities at the asset manager and a targeted 20% return on group capital by growing Athene has resulted in little need to invest in the business through M&A.

Balancing all these dynamics, we expect to continue immunizing all regular way equity-based compensation when it's issued, and we expect to immunize both the dilutive impacts of the mandatory convertible preferred and the vested stock awards we announced today over the next few years as capital is available, targeting a share count of 600 million shares outstanding. We anticipate additional capacity within our current 5-year plan but back ended to consider opportunistic for share repurchase in addition to. And with that, I'll turn the call back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question today is coming from Patrick Davitt of Autonomous Research.

Michael Patrick Davitt

Autonomous Research US LP

I know early days, but could you address your view of the potential risks to your business from the new DOL rule published yesterday? And within that remind us, if at all, how dependent Athene is on distributors that might be charging the "junk fees" they're talking about?

Marc Jeffrey Rowan

Co-Founder, CEO & Director

Okay. Thanks, Patrick. It's Marc. So this -- what came out yesterday is not much different than what the industry saw 7 years ago. 7 years ago, we and the rest of the industry prepared and actually made changes, extensive changes, to how products and fees and features were disclosed. And so truthfully, not much new.

In terms of your question on exposure of the business, about 10% of our business is through wholesalers. Another 10% is also to accounts, but it's through banks that would have a very easy time adjusting to this because they essentially already charge that way anyway. So specifically, roughly 10% of the business is focused and not really worked up about it. This is where we were prepared to be 7 years ago, and I think we're still a ways away from a final rule here anyway.

Operator

The next question is coming from Glenn Schorr of Evercore ISI.

Glenn Paul Schorr

Evercore ISI Institutional Equities, Research Division

I wonder if we could just revisit two things that you said. You gave us good guidance or thought process on next year. So the \$70 billion for next year. I'm curious if you could talk about that shift that we saw in the quarter. Inflows into Athene were low because the shift over to ADIP. What should we expect of that \$70 billion next year? Should we -- and should we even be focused on it? Because I think in line with this DOL question, I think there's this notion that the retail flows are "higher quality" and some of the other funding agreements are stop gaps. But I wonder if you could talk to the quality of the four channels and if you debunk any of that and how we should think about that shift going forward.

Marc Jeffrey Rowan

Co-Founder, CEO & Director

So Glenn, it's Marc. So we've been watching this for the last 14 years. Fundamentally, there is no difference in the quality of any of these four channels. We run a business around cost of funds. Sometimes various channels are attractive, sometimes other channels are attractive. What we're seeing is there is a fundamental demand, not just in the U.S., but everywhere in the world, for guaranteed income. People need retirement solutions. If you look at the vast pools of capital in the U.S., for instance, in 401(k), where there's \$8 billion to \$10 trillion, we force people who need returns the most to be daily liquid for 50 years. What we're doing as a country makes little sense.

And consumers know that. And so what they've done as soon as they have access to their funds, increasingly, they are in higher rate environments seeking out guaranteed lifetime income. The demand we're seeing on annuities, either directly or through reinsurance, is fundamental. Reinsurance, again, no different to us than direct business other than it tends to be in markets or in market segments we don't serve or don't serve yet. So I don't view there is any difference one way or the other in the way these things go.

As it relates to the broader question, we have a choice. We have a choice of the capital intensity of our business. If we want to be more capital-intensive, we put up \$0.08 to \$0.10 of every dollar, and we retain a 100% of the business. If we do that, SRE grows faster because we're retaining more business. And it grows faster because we tend to earn 15% year in and year out on the capital that we put up. Really good option. We have, as you know, made a business decision that on the margin, we tend to fund around 1/3 between 30% and 40%, depending on the mix of business and the regulatory source of the business of every new deal, which means that we put up 30% to 40% of that 8% to 10%, and that will alter the SRE growth.

I think what we've said to you over the long term is that we expect the Retirement Services business to be a low, mid double-digit rate of return grower. At every quarter, Jim Belardi, Grant Kvalheim and team are embarrassing us. And this year, as you know, it's up 30%. What we're seeing this year is what Martin detailed, not only are we seeing fundamental demand for guaranteed income, which is driven by secular trends like you and I are getting older. But we're also seeing widening spread. We are reluctant to budget. Increased spread of 160, 175 basis points, which is 30 to 50 basis points above what Athene has done historically. But if we continue to see the scale of debanking in the investment-grade segment of the market, I think we will continue to put up spread, but that's the kind of spreads we are. But that's not how we budget, and that's not how we telegraph where we think we're going. We think the prudent thing is to budget the way we have historically and let the performance speak for itself.

Operator

The next question is coming from Michael Brown of KBW.

Michael C. Brown

Keefe, Bruyette, & Woods, Inc., Research Division

So I appreciate the commentary on the net spreads within Athene. I guess one thing I was trying to think through is the higher short-term rates have been a meaningful tailwind for the earnings on the floating rate asset side. As we perhaps get closer to the end of the Fed's rate hiking campaigns, are you thinking about taking any actions there to reduce that downside risk if short-term rates do start to come down?

Marc Jeffrey Rowan

Co-Founder, CEO & Director

So we are plus/minus \$30 billion of net floating rate assets. If you look at the growth of the business over the next 2 or 3 years and you consider the mix of our liabilities, we will want to be 2, 3 years from now, \$30 billion of net floating rate assets. Having said that, we probably are relative to our liability position, \$10 billion to \$15 billion excess floating rate assets over what we would want to or consider a long-term prudent position. You should expect that we will take action over the near term to reduce the short-term mismatch reflecting that, and that's factored into everything that we've discussed with you today.

Operator

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

Alexander Blostein

Goldman Sachs Group, Inc., Research Division

I was hoping we could dig in a little bit more into some of the retail products you mentioned, which we seem to have pretty good momentum here in the quarter. In particular, AAA, I know the product is a bit complicated. So maybe give us sort of a breakdown of composition across various channels and sort of you paying AUM between kind of third party and Athene as well as how the kind of gross sales conversations are unfolding on that side of the channel.

Scott M. Kleinman

Co-President of Apollo Asset Management Inc. & Director

Sure, sure. So on the AAA side, we've been actually very pleased at how sales are progressing there. So we had our best quarter yet, a little over \$700 million in the last quarter for AAA. So week by week,

month by month, we are getting AAA onto more selling platforms, more sales agreements. So progress is good there on the retail side. We expect this to continue to grow up.

As you know, the retail business is all about getting on to more platforms, more bankers, more selling agreements. And for not only AAA, but all our products, ADS, ARIS, this is how we are progressing. This is why in my prepared comments, I just talked about, we're in -- we're finishing up year 2 of our global well focus, and we just see so much more positive momentum as we get these selling agreements signed up in place, product by product, area by area, region by region, just huge opportunities. So really positive momentum across all the products we have in market right now. Like I said earlier, we have 7 product families, out there right now. We have a few more coming in 2024. We're at that point where we feel like we'll have a fairly complete lineup across the asset classes. And so yes, good progress.

Marc Jeffrey Rowan

Co-Founder, CEO & Director

So I'm just going to leave you with this following sense, Alex. What we're trying to do here is similar to what we're doing in the rest of the business. As you know, I've said publicly, certainly, for high net worth families, family offices, I think they will be 50% plus alternatives over the next 5 years, and we're seeing that kind of uptake in traction.

The difference between where we are and where I think we're going to be is only education. When we say we're on a platform, one of the big private banks, it may be 5% or 10% of the financial advisers. This is an education, an evangelical activity with more and more converts every day.

And so if you take AAA, and I know you premised your question as a complex product, I'll make it an easier product. You can buy the S&P 500 at a 50 PE or you could buy roughly the same historical return at a much higher sharp ratio and give up liquidity. That is the choice we're actually seeing investors make. And while private markets are something that many on this call and we are very familiar with, the vast majority of investors, thinking back over the 40 years, they've been doing just fine owning the S&P and the 30-year treasury.

And my point of starting where I started is I don't think with the absence of tailwinds, people are going to get the same performance. I don't think what I'm saying is all that controversial. We're now just in a period of education where people consider, what does the market look like? How do I invest without tailwinds? What does it mean that public markets are less liquid on the way down? What does it mean to have debanking? And what does it mean to have indexation and concentration?

I believe when you look forward at asset management more generally over the next 5 years, I think you're going to see an asset management industry that is continuing to grow in its passive strategies. I think you will see boutiques who offer access to uncorrelated returns or at least nonmarket correlated returns, such as ourselves and others grow. I think the tougher part of our industry, which you're already seeing, is active management. Harder and harder for active managers to produce good returns, certainly in fixed income. I question whether there's any alpha left in publicly-traded fixed income markets. And given indexation and concentration, I think it's very, very difficult in equity markets.

And so I like where we sit. I like our hand of cards. It does not mean, again, we're going to be the biggest or the fastest growing. In the retail market, we want to be thought of as prudent and creative growing our footprint every quarter, but not spiking it. Taking too much money at a point in time to chase a hot strategy just makes no sense. It ultimately produces concentration risk, which some of our peers have seen by taking too much money at a point in time. Slow and steady, constant build is what we're seeking to do.

Operator

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

Michael J. Cyprys

Morgan Stanley, Research Division

Just wanted to circle back to your commentary, Marc, on the DOL proposed rule. I was hoping you might be able to just elaborate a little bit on what aspects of the rule you find most troublesome for the business? And then what specific actions to products and features can be taken to address the rule? And then I think you mentioned about 10% of the business may be most impacted. I think it was in the wholesale channel. But what are other levers that you might be able to pull such as maybe altering the distribution strategy and maybe even thinking about going direct because it doesn't change the overall demand side to your earlier point that retail investors still have a demand for income?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

So look, it starts with investor demand for guaranteed lifetime income or guaranteed income is going up, and I think investors will ultimately seek out places to do that. Historically, products like annuities have been very complicated because they offer a variety of options and other things. And therefore, they have had more of a complex sell. Therefore, you have needed advice and that advice has therefore a more expensive distribution than something you can buy off the shelf.

I remain skeptical on direct distribution, but I also see the proliferation of distribution. Increasingly, financial products like guaranteed income are being sold through the banking system, are being sold through RIAs. And if you focus in on the specific issue, these are not issues of disclosure. They are actually not issues of product features. We and many in our industry have already made the changes going back 7 years because that was just best practice. I think there will be more pressure on fee. That clearly is what it's at. And we can have both sides of that. I'm not going to say it's good or bad, but I've watched in other places around the world where the focus has been on fee.

Take Australia. You have the biggest or the best retirement system anywhere in the world, \$3.5 trillion for 28 million of population. Well, they have a big problem there. They actually legislated out all the fees. So now there's no advice. No one provides advice. And so at 65 when people get their big lump-sum distribution from the superannuation product, they don't know what to do with it. And people are dying with between 35% and 40% of their retirement income intact. The government doesn't like that because there's been no advice on what I'll call decumulation. How do you set yourself up to live through however long you're going to live given the increasing lifespans?

Eventually, I believe we're going to come to a sensible place. That may be lower fee in distribution, truthfully, bother me in the slightest bit. Small piece of the business, I don't think this is going to result in fundamental changes in distribution. I think it may change how product is priced, and that's okay.

Operator

The next question is coming from Brian Bedell of Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Maybe just to zoom in, Martin, on the FRE guidance, the 15% to 20% next year. For the higher end of that or getting closer to the higher end of that, would it be capital markets or capital solutions fees as the biggest swing factor? And then if you could just comment on the trajectory of that, definitely certainly much better again this year than last year. And I think you're -- maybe you could just confirm, I think your guidance was for flat solutions fees baked into that 15% to 20%. So maybe the trajectory of that and what drivers would increase the solutions fees a little bit faster.

Martin Bernard Kelly
CFO & Partner

Great, Brian. So what I said is our sort of current best estimate, obviously. And so we're focused on all the fundraising initiatives that Scott raised. The -- putting money to work in an environment which we think is conducive to our investing orientation and then continuing to build out the capital solutions business. And so any -- we've made assumptions around each of the three of them. Any of them could be a plus or minus to the guidance I gave, and so we'll talk more about capital solutions on the 14th. That's one of the

objectives of the day, to connect that back to the origination strategy and our fixed income origination and distribution focus.

But yes, in the comments I made, we are assuming it's flat. Is there upside? Potentially. But it's -- we're really, really happy with the growth of the business. A 5-year plan in 2 years is pretty heroic, and so we're focused on building out that business further and repeating the success we've had, so with the primary emphasis on credit and then building it out to other -- to coinvest over time.

Operator

The next question is coming from Brennan Hawken of UBS.

Brennan Hawken

UBS Investment Bank, Research Division

Sorry if this is a bit remedial, but cost of funds came down quarter-over-quarter. I don't know of another company in financial services where cost of funds came down. So could you maybe speak to what drove the lower cost of funds, whether or not there was any onetime items and how sustainable that is?

Martin Bernard Kelly

CFO & Partner

Yes, we had -- so you need to look at the normalized net spread. That's why we try to focus on the net of the two. There was a benefit in cost of funds for the quarter that we telegraphed last quarter related to the Venerable reinsurance transaction. And so that impacted cost of funds, which we then normalized out in the net spread. So I would look at the 165 basis points as the guide is our current best view. And it takes account of things like that, the [ACRA] buy down during the quarter, which are sort of episodic but not recurring.

Marc Jeffrey Rowan

Co-Founder, CEO & Director

But I'm going to use this to make a point, which I've made previously. When you originate new product, you originate product that is protected by surrender charge, market value adjustment; or in the case of PRT, is fully locked in. You should, therefore, be willing to have a higher cost of funds for a fully-protected product because you can invest against it. It gives you longevity. It gives you certainty.

We have four different channels, and we look at each of the four channels on a regular basis, and we try to keep our cost of funds low because if we know if we have a low cost of funds, if we're not good investors, we can earn spread. And if we're good investors, we can earn a lot of spread.

What's happened in our market is you now have a number of entities who have seen what we have built and are late to the game. The way they intend to get into this business or trying to get into the business is to buy back books of business. Buying a back book of business with degraded surrender charge and degraded market value adjustments in a low rate environment may be sensible because in a low rate environment, the contract rate is above the rate in the market, therefore, you expect the book to behave predictably.

But in the market we're in right now, for someone to buy a secondary book of business and pay for a cost of funds in excess of that of retail kind of tells you all you need to know about the quality of the business that people are buying. And I encourage you to push as hard on cost of funds across the board. It ultimately simplifies what is a very complex business. We're in the spread business. Having a low cost of funds is really important.

Operator

The next question is coming from Ben Budish of Barclays.

Benjamin Elliot Budish

Barclays Bank PLC, Research Division

I wanted to ask about the alt return of the Athene business. It's been below the sort of normalized 11% for several quarters. Anything in particular to call out there? I know we always spend some time trying to triangulate what it might look like, and there's many kind of components to that. And any color on sort of the key drivers over the past year or so? And what do you think might get that back to sort of the normalized expectation going forward?

Scott M. Kleinman

Co-President of Apollo Asset Management Inc. & Director

Sure. The -- as you know, the alt portfolio is made up of 150 different positions. About half of which relates to our origination platforms. About 1/3 -- the remaining quarter is about funds and other, I would say, hybrid-type products. And then the last quarter would be other bespoke and direct investments.

Overall, we still look at that portfolio as being, call it, 12% plus. The last couple of quarters, given the environment, there's been a little bit of slower appreciation as you've just seen in the broader market. But really no fundamental concerns there about what's in that. The -- as we've always said, that portfolio will sort of deliver you 8 in a really bad year, 18 in a really good year and 12 to 15 expected and we see nothing deviating from that.

Operator

Thank you. This brings us to the end of the question-and-answer session. I will turn it back over to Mr. Gunn for closing comments.

Noah Gunn

MD & Global Head of Investor Relations in New York

Great. Thanks for your help this morning, Donna, and thanks again, everyone, for joining the call. Just a couple of reminders. We would encourage you to participate in Athene's Fixed Income Investor Call next Thursday, November 9; and then our Origination Deep Dive that we mentioned on November 14. If you have any questions regarding anything discussed on today's call, as usual, please feel free to reach out to us. Thank you for your time.

Operator

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

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