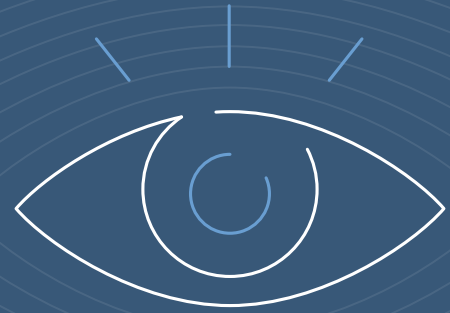


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THE VIEW FROM APOLLO

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Origination: The \$40 Trillion Engine of Private Credit

Recent growth in private credit markets has been driven in part by a surge in new loan originations by private lenders.

In this episode of the View from Apollo, Chris Edson, Apollo's Global Head of Origination, discusses why private market originations are growing and how both borrowers and private credit investors can benefit from the expansion of private loan originations into a bigger and more diversified market.

Q: Can you start off by simply defining what you mean by the term “origination”?

A: At Apollo, we think about things a little differently from an origination standpoint. In fact, my job really doesn't exist at a lot of other firms. We define origination as something where we're directly sourcing, underwriting and funding to a borrower or to a counterparty or to a client. This is not stuff that we buy in the secondaries markets. This is not stuff that we're buying through brokers or intermediaries. This is something where we're directly talking to the counterparty. And for us, the scale of this, which we publicly disclose every quarter now, is about \$260 billion of origination on a last-12-month basis through the second quarter.

When we think about what we're doing, this is really about providing a win-win solution for clients. It can be credit, it can be equity, it can be hybrid, it can be high grade or it can be high yield, it can be corporate or traditional structured, or it could be asset backed. And when we think about returns, it's a pretty wide range of yields that we participate in, from as low as mid-single digits, call it 5%, all the way up to traditional private equity-style rates of return at 20%. And everything in between.

This is a change from how asset managers were set up historically. Historically, managers were structured by products. There were niche funds and absolute return targets for these niche funds. Someone that's looking at say, a private equity buyout, would only look at that type of structure. Someone that was looking for a credit investment

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would only look at that credit investment, as opposed to thinking about the whole spectrum of different things that a client or counterparty could be interested in. For us it's really about being cross platform. It's all products, it's all industries, it's all funds. And this is what requires this integration. We have 400 investment professionals across the firm. We have 4,000 people across our origination platforms, which I'm sure we'll talk more about. This is really about building recurring and diversified deployment.

Q: Has something happened recently that sparked the expansion of this market?

A: A lot of this is stuff that's been around for many decades. Corporate lending is not new. Trade and equipment finance is not new. Infrastructure, real assets, mortgage consumer, all the things we do are traditional types of lending. What's different now is that there's more demand for capital, there's more demand for solutions, and there are more providers of those solutions.

What's driving all this? Well, first it's what we refer to as the industrial renaissance. Tens of trillions of dollars of capital are needed for AI spending, energy, defense, things like that.

Second is the need for longer duration funding. Banks are great providers of short-duration funding and insurance companies and credit funds are better providers of long-duration funding. Many borrowers want to de-risk their funding models. If you just look at the last five years, there's been a number of times when the capital markets or short-term borrowing has been interrupted. You have COVID, you have the Russia war, you have the interest rate rise that then caused the regional bank crisis. And then just earlier this year, you had tariffs and Liberation Day. All these things are creating volatility in the markets and companies want to de-risk against this. So what we are finding is that our capital is pretty complementary with bank capital. We've done a lot of these partnerships and that's because the banks are great providers of short-term funding. They're great providers of other products, whether that be M&A advice, cash management, derivatives and other things like that. And the right home for the long-duration assets really sits on either insurance company balance sheets with long liabilities or it sits in a credit fund.

And then lastly, there's been this increased desire for customization. Historically, if you were a company and you wanted to borrow money, you had two options. You had to either call a bank or do a public bond. These are great for regular things, but when you need something a little bit more custom, maybe over a longer duration or to solve some sort of a problem that you might have, having access to a customized solution is valuable.

Q: Can you talk more about customization? What are some of the options that people are looking for most commonly?

A: If a company wants something fast and standard, typically they'll just issue public debt or they'll call their bank. That's pretty easy. It's typically low spread, but it needs to fit in a standard format. It's not negotiated. It can't be drawn over time. So why are companies thinking about this customization? Well, sometimes we have companies that call us and say, I have this construction project, I need money over the next five years. I don't need it all now. I don't want to start paying interest in all this money, but I also don't want to take that risk of market volatility in the future. So can you help me de-risk that funding plan over a longer period of time? We've also had a lot of companies think about supply chain interruptions over the last couple of years, really since COVID. How do we de-risk that supply chain? How do we have more of a buffer of inventory? Is there a partner that can help me build that buffer and help me provide financing for that inventory on a just-in-time basis?

We have a lot of large clients that look for these sorts of things. Some companies say that it's not efficient for me to own my fleet of vehicles or my real estate on my balance sheet. I should be allocating this capital more to growth. There's more efficient funders or better ways to do that. Some companies might not want to have public debt. If you have public debt, you have to reveal a whole bunch of information financially about your business. And so private debt can be a solution to that. Or if there's a sensitive acquisition of a public company, or if a company wants to upgrade their credit rating, they might need a private partner to help them go through that whole process. These are the types of things that private credit can provide.

Q: And the other seat at the table in all of that is for the investor. How does this all translate to what investors are looking for?

A: Typically, in private credit, you're not buying a publicly traded bond, you're speaking directly to a company. Historically, the performance of this private credit has been stronger than in the public markets. Typically, there's a little bit of higher yield that can be 50 to a couple hundred basis points. And typically, there's also lower losses.

When we think about what might drive some of these lower losses, it's really that if you're talking directly to the company, you can do a different level of due diligence. These loans often are also structured with collateral. This collateral provides protection against what we refer to as single-point-of-failure risk. This is another way for us to have downside protection. And then typically the documents are much stronger because it's negotiated directly with the counterpart with the client. And then lastly, these types of deals sometimes have amortization, which helps de-risk them over time, as opposed to taking a bullet repayment risk from a return perspective.

Historically, returns have been a little bit higher. This is partially because we're going direct. There's not a lot of friction through intermediaries. It's also because a solution is being provided. These sorts of protection against confidentiality, the funding over time, the longer duration, all these sorts of things are providing a solution that adds some value.

Q: Does this all hinge on corporate lending?

A: That's a great question. It isn't just about corporates, it's really the broad market. When you read press on private credit, there's a lot of reference to the traditional high yield market, the leveraged lending market, the LBO finance market. This is really a \$1 trillion to \$2 trillion market. The market we're talking about is way bigger. This is a \$40 trillion market. This includes everything from trade finance, commercial real estate, mortgages, consumer finance, warehouse lending, especially finance companies, equipment and fleet finance aircraft. And of course there are general corporate loans as well, not just to high-yield companies, but also to investment-grade companies.

We've spent the last 10 years building out an ecosystem to help provide solutions across all these different markets. This is the 400 investment professionals that we have at Apollo. These people are industry experts, they're structuring experts. They sit on our credit and equity and hybrid teams in our asset management business. Separate from that, we also have our origination platforms. This is where we have 4,000 people. These people are at the platforms sourcing deals. They have thousands of relationships, and many of the deals in the platforms can be smaller because we can more efficiently do this through these larger businesses. And they also have a lot of servicing capabilities, which can be complicated for what we're providing. And then we have our partnerships. We have dozens of partnerships. These are with banks but also with third-party origination platforms. What this does is, across all of this ecosystem that we put together, it gives us the broadest access to the widest array of assets, which really helps us find the best risk-reward.

Q: You said earlier that your job doesn't really exist anywhere. Can you give us a little bit of background? How did it come to be and how did you get where you are?

A: This has been 15 years in the making. We started with Athene, our insurance company, right after the GFC in 2009. This is what really created our balance sheet. 80% of what we do now is really a broad credit business. You know, just to put Athene in perspective for a minute, Athene is about \$400 billion of assets, which is about half of our total \$840 billion or so of AUM today. Athene is also important to our investor partners, our LPs, and investors in our funds because it drives significant alignment. When we think about investing, we are typically buying between 25% and 50%. From an alignment perspective, this compares to traditionally, a fund might have a 2.5% to 5% GP co-invest. We're at sort of 10X-plus level of alignment that others might have. And as we think about scaling this credit business, growing Athene, this is really what drove the need and the desire to build out this origination ecosystem.

This is to help us find the best assets to give our retirees the best value, to give our credit fund investors the best value. And a lot of these assets as we'll talk about are in investment grade.

This focus on origination really increased in 2018. I'll always remember because it was a couple of days after my daughter was born, I get this phone call from Jim and Scott saying they want me to spend a hundred percent of my time in origination. The firm saw a real opportunity to keep growing in credit and this needed to be a full-time focus.

Q: How did it work? Right from the beginning, what was the approach, where did you start and how did you get it going?

A: It started with origination platforms. We were buying and building these platforms. These are specialty finance or specialty lending businesses. They're standalone businesses. We have 16 of these platforms now in our ecosystem. They focus on everything from mortgage and consumer finance to equipment and aircraft lending to vehicle fleets, ABLs infrastructure, debt fund finance, structured products, and warehouse lending. This is where the 4,000 people sit. We've invested \$15 billion of equity to help build this over the last decade.

It's not just about providing financing. It's about capabilities. Take Atlas, the warehousing business that we bought from Credit Suisse. This business sends millions of wire transfers a year. Our fleet business, Wheels, has hundreds of people. They help with everything from vehicle registration to maintenance to break fixes. Our inventory finance business, Eliant, is the partnership we have with BNP. This is buying billions of dollars of inventory direct from companies, tracking skews and titles, and selling it just-in-time to large clients as they need it. All these things are complicated. They're providing value-added solutions to our partners. These are things that can't be funded through traditional corporate debt or public bonds.

And then as origination expanded, it wasn't just about the platforms business, but we have a large sponsor finance business. This is about \$70 billion a year of origination. Our corporate business has hundreds of people that are focused on it. People have probably seen some of the large deals we've done for companies like Anheuser-Busch, Air France, Intel, AT&T and Sony. There have been about 35 deals like this done in the market and we've done 30 of them.

A lot of this is culture. We're not siloed as a firm. People are incentivized to work across the firm. This culture shift has been led by Marc (Rowan) and our other senior leaders and has been critical to the build out of origination.

Q: Who are Apollo's typical counterparties?

A: We've really changed the definition of counterparty and client. It used to be that our clients were just fund investors, either our LPs or investors in our credit funds. But now we think about this client universe much broader than that. It includes large corporations. Some of our largest clients also include other asset managers, people that used to be our competitors. And also banks. Banks used to think of us as the client and now we really are partners. And with the banks we've done about a dozen partnerships so far.

Q: How has Apollo changed the way it's doing things over the last few years to meet all this new demand?

A: It started with the culture shift that we talked about, which is moving from siloed funds and absolute return targets to really thinking about risk, reward, and thinking across the platform. Whether or not our teams work in a specific fund or for a vertical, they're thinking across the platform, about all the different types of solutions we can provide. So that's the first thing. And the second is the fact that the majority of what we're providing is investment-grade solutions. We need to be an efficient funder and we built an efficient system for this. So first we have long-duration insurance liabilities, which are very efficient to fund long-duration assets. But also we've built these platforms. Each of their capital structures are built very efficiently. Wheels is an investment-grade business. It's got a 90-year track record. Its financings are backed by almost a million vehicles. That's what helped drive a low funding cost at Wheels. Atlas is an investment-grade business. It's backed by about 300 warehouses and millions of diversified line items.

This is what helps drive an efficient cost of funds there. We also do non-investment-grade assets by having a breadth of products, whether it's from our funds or otherwise, that gives us the full range of yield from investment grade to non-investment grade. That breadth allows us to be relevant to clients and drives repeat business, cross sell, and win-win solutions.

And then lastly, it's the scale. Most high-grade lenders have a 1% rule. This is how they think about a concentration limit. If someone wants to borrow \$5 billion, they need to find someone that has a \$500 billion capital base in order to do that. So having scale is a real differentiator in the market.

Q: Where do you see the best opportunities ahead?

A: It's really about supply and demand. We see strong demand across the globe. The pipeline continues to expand. It's a market growth game. Borrowers are looking for additional and diversified lenders. They're looking for custom solutions, they're looking for long duration funding, that certainty to limit market risks, for all the things that they're trying to protect against, the COVID, the Russia, the rates, the bank crisis, the tariffs. All of this drives borrowers to long-term stable partners, even if it's a little bit more expensive. It helps reduce that volatility and allows these companies and borrowers to focus on their primary focus area of driving their business.

Q: Are there still growth drivers in place to continue this expansion?

A: We see a growing need in the industrial renaissance, in the tens of trillions of dollars we think will be needed for digital infrastructure, energy and defense. But there's also a shifting market dynamic, especially in Europe. Most of the funding in Europe is from the banking system. This is much more of a static pool of capital. The capital markets are a fraction of the size of the US, both in nominal terms and as a percentage of GDP. The securitization market is very small there coming out of the GFC. It's less than a 10th of the size of the US and they're looking for a lot of capital. They're making a lot of investments in infrastructure and defense and other things, and they're looking for long-duration capital. They're looking for incremental lenders to come in and help supplement the banking system. A big focus of our partnership effort with the banks is in the European markets.

And then, in the IG markets, we see continued growth for a lot of IG companies. These CFOs and treasurers are focused on diversifying their borrowing bases as they think about their own franchise value. Diversification of suppliers drives value, including funding suppliers. Having multiple sources of capital, having the ability to get customized financing, having more downside protection from these longer-term financings, having capital efficiency through the right types of asset-backed finance and then being able to partner with people for repeat business, that is really something of value.

Q: What are you most excited about moving forward?

A: Origination really connects the whole firm. I love spending time with my partners from all parts of the business, all regions. The energy level at the firm, the drive, the excitement— it's firing on all cylinders. We live by this anti-complacency or "Always-Day One," as Amazon calls it, sort of mentality. This failing forward, this "change-is-constant" approach, this is what is helping us consistently improve and provide better solutions for clients.

Note: The responses above have been edited for clarity and concision and do not represent a verbatim transcript of the podcast.

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