SHAPING THE FUTURE OF FINANCE: LEADERS IN ASSET MANAGEMENT

Announcer 00:00

For part two, please welcome the panel on leaders in asset management, moderated by Chairman of the Milken Institute, Michael Milken.

Michael Milken 00:09

Well Jon, it's great to see you. Marc, it's great to see you. We have a panel with many diverse interests, but we just want in full disclosure, that all three of us went to the University of Pennsylvania. So just want to make sure we've disclosed them. The real thing we're going to talk about today is somewhat of the evolution of money management and looking at the formation of Apollo, looking at the formation of Blackstone, so looking back, looking at where they are today, and where their leadership is planning to take them in the future. Let's start with just a simple question: Jonathan, you joined in '92—was that the year? That is the year, now I remember I made a small investment, Marc. Might remember that we invested in Blackstone to help get it started when Steve and Pete lost out to Luke Glucksman, and we were nice enough, in 1988 or '9, to sell you our position back at cost. I haven't figured out how much more we could have given to charity had we held on.

Jonathan Gray 01:51

Your IRR would have been pretty good.

Michael Milken 01:53

So let's talk about, kind of the Blackstone in 1992 that you joined and — take us for the next, say, 10 to 15 years.

Jonathan Gray 02:05

So first off, great having you give me this opportunity and being with you. What you built here, Mike, is extraordinary. I guess I'd say a couple of things. The firm I joined in '92 had 70-ish people. We had one fund at that point. It was the leveraged buy-out (LBO) business that was all, as you know, it was a nascent industry. We had a small advisory business. And really, over the ensuing [period] until the financial crisis, we grew, and really credit to Steve's push to be entrepreneurial, to go beyond just private equity into real estate, hedge funds, credit. But interestingly, what I would say through that period of time, it was all high octane. For the most part. You gave us money to get 20 gross, 15 net. And so we ended up doing this small number of things, and we had a relatively small number of customers, pension funds, sovereign wealth funds, maybe some super wealthy individuals. But I would say it was a little bit of a niche cottage industry. And maybe jumping ahead, the financial crisis, I think, changed a lot, because what happened was investors started to say, Wait, you know what? With rates so low, I might trade some liquidity for higher returns, maybe not as high as these opportunistic strategies, but in core plus real estate, in infrastructure, in performing credit, both non- investment grade and now investment grade, which Marc has really led the push on. And I would say that's what we realized[inaudible]

Michael Milken 03:55

I don't get royalties when you say non-investment grade. Okay, I didn't get that innovator. I should have got a patent. Yeah, I didn't.(Laughter)

Jonathan Gray 04:08

—non-investment grade private, so that has changed the business and, of course, what's really evolved now is more institutions, more now-individual investors and insurance companies. And what was this niche little business now serves many. And the key, I was just going to say, is it's about performance. It's a bit of, you know, what's happened in the long-only business, it's become index and passive because of better returns. It's the premium returns that have driven this movement into private assets.

Michael Milken 04:43

So, it was 1965 and I've subjected both of you to this formula, Marc more than you, Jon, but it was—and [I] went back to Berkeley. I changed my major from math and physics to business. And I had written this formula, and in many ways, you two have really taken what I saw as the vision to a reality here, and essentially that when Finance—Financial Technology serves as a multiplier effect on human capital, social capital, and real assets. And it wasn't one form of finance, it was thousands of forms. And so when you talked about all these different types of funds or securities you brought, the key was, could you match the right capital structure to the right business and the right company? Marc, let's talk about the formation of Apollo. So today you're now more than 30-some odd years older. Hard, hard to imagine that it was more than 30 years ago. Both of you kind of got going around the same time, in the early '90s, with your efforts here. And Jonathan, if I remember correctly, I thought Blackstone, when you joined, was managing about 750 million (Marc answers) Yep, and today, about 1.2 trillion, yep. (Michael Milken) So betting on you and the team and Steve would have been a good bet. Marc, talk about the what the idea was, and maybe take us through the first 10 to 15 years of Apollo.

Marc Rowan 06:35

Well, nothing like not having a job to be a good motivator. So people: Apollo was founded in 1990; 1990 for those who don't remember, was 2008: massive recession, Texas banking crisis, New York banking crisis. RTC, not a great time to be an unemployed investment banker, but a wonderful time to start a business in private markets. We started with one investor, the government of France, through the government of France, Banque Credit Lyonnais, we became the largest profit center for this bank over the next five years, earning them roughly $3 billion a year, or 50 percent rates of return. But the downside of being the bank to the government of France is, you get to support French industry in hard times. And so they went through a nice thing that sounded like bankruptcy, but had sounded better in French. And we, fortunately, had enough of a track record and diversified into different types of investors, different types of products. But I picked the same kind of jumping-off point that Jon did. The business was kind of one thing before 2008 and something different after 2008. If you look in history, all of the big firms were 40 billion of AUM in 2008. In 2008 every one of the big firms went in a completely different direction, but turbo- charged, and it's driven in part by what Jon suggested is very low rates of return, in part by a recognition that maybe we weren't right, that everything that's private is risky and everything that's public is safe. Maybe public is safe and risky, and private is safe and risky, and this need for daily liquidity is overstated, and that's carried the business to where we are today. But I think we've kind of seen nothing yet. And I look at, you know, as we were talking backstage, three fundamental drivers that are powering the next stage of this. The first is what's happened in markets, and you started on your slide talking about it. When everything is indexed and correlated, where is the creativity? Where is the matching? The more indexed and more correlated public markets are, the more private markets offering bespoke solutions are going to flourish.

Michael Milken 09:00

So I think I didn't know this quote in the mid-'80s, but I learned to know this quote from Pericles, 431 BC, I hadn't studied it totally: but "just because you do not take an interest in politics, it doesn't mean that politics doesn't take an interest in you." And Marc, in the early years, you made one of the greatest investments ever, you and your partners, by buying the portfolio of First Exec. And this was a situation where the insurance commissioner had seized this, and other insurance companies thought he might become governor for doing this. But by the time the election came around, the world had changed, and you might talk about what you saw in that because in the early years this, in my opinion, it was a seminal transaction that you entered into. They were the largest creditor of maybe 100 companies in America. And as you said, they had introduced legislation in the late 1980s, that you could not invest in noninvestment-grade debt, and funds like CalPERS, CalSTRS were sold, were told to liquidate all their holdings, until they discovered that there was no job creation, and in 1991, I think, you made 40 percent on your money in just straight, noninvestment-grade debt. So take us back to that point in history.

Marc Rowan 10:47

I think the better way to come at it, Mike, is financial institutions, insurance companies, banks. They tend to die of one of two causes. They tend to die of heart attacks or cancer, cancer being the slow addition of bad assets over a period of time, and heart attack being liquidity, funding, confidence, risk. We've seen, over a number of crises, financial institutions die of both heart attacks and cancer any time a large financial institution in a period of instability runs up against the regulatory system. The concern is for contagion. The level of sophistication in our regulatory apparatus today, to understand the interconnections of a non-bank financial system, is very, very low, and often the decisions are arbitrary, in hindsight incorrect, and create opportunities for those, I believe, who are patient. But Pericles had it right. The business that we've run, if it were just the buyout business at the scale we all have gotten to, I think, would be under attack, regulatorily, from unions or otherwise, justified or unjustified. But I think what we've figured out is that we are now actually serving a tool of things that the government needs done. Every government is more constrained than they've ever been. And you think about what we're building as a world, we're building infrastructure. We're building next-generation data and power; next generation defense; all long, dated, complex assets. They are not going to get financed on bank balance sheets. They're not coming to the public markets. Private capital is going to be a critical role for this. Europe, as an example of regulatory interaction, has been hostile to both the banking system and to the regular and to the investment system. If you're hostile to both, you end up with no capital formation. Mario Draghi just reminded Europe that if it wants to compete, it's going to need to have political change, regulatory change everywhere in the world. We are a derivative, right now, of some powerful trend that the government is not able to address. Retirement, in both our cases, is running a huge portion of the business, and financing the next generation, while governments are very levered, is the other big driver of our business.

Michael Milken 13:07

So let's talk a little bit. I want to stay in the past, then we'll move to the present. So if we look at the number of firms today that are backed by private equity just in the US, versus the companies that are public. As many of you know, the Wilshire 5000 was still the Wilshire 5000 when there were 7800 and then when they got down to 3800, they didn't change it. But if you look today at privately backed PE firms versus public companies—, there are dramatically more firms in America now of decent size that are controlled by private equity and there's a lot of myths here that you know I'd like to really address. One is wages, and that is, if you worked for a private equity firm, you actually got paid more, more job creation. And each of you have been involved in initiatives here for employees of companies, and your initiative today, and Jonathan on career pathways, et cetera. Talk a little bit about what you've learned, and the fact you control so many firms. You've invested in so many firms. And I'd like you, Marc, to touch on what have you learned in this area?

Jonathan Gray 14:34

A couple of things. I think it's very powerful as a private equity firm, because if you decide to make a change, you can do it at scale across many businesses, so you can really be a force for good. We've seen that in multiple ways. I would say you mentioned the Career Pathways Program, which we love. Joe Baratta, our head of private equity, really spearheaded this. It was his idea that we need to give our companies tools to find people who haven't traditionally had access to work at companies like this, from underserved communities. Could we go out there? Could we partner with a bunch of great local organizations and in the process, end up hiring a bunch of people who otherwise wouldn't be hired? And we've done something like 10,000 people hired in that way. We've had the same impact at massive scale with veterans, with a push there to hire veterans and their spouses across our companies. And the other thing I'd say, back to your earlier point, Mike, is that this myth of private equity buying and sort of deconstructing businesses, which is, you know, "Pretty Woman" in the 1980s, leverage up some smokestack business, you know, fire lots of people. That's just not the way you make money in high returns. It's buying really good businesses and accelerating the growth of those businesses. So for us, we bought Hilton Hotels in 2007. It was a sleepy company. It wasn't growing fast. We put in place amazing management under Chris Nassetta, we accelerated the global growth. They're a leader today in sustainability. They're a leader, the No. 1 great place to work in America. And yet you never hear that story, to your point. So I think that, to me, the lesson of private equity is, at scale, we can do things. We're now doing things around giving people stakes in the companies that are larger companies, so they can share in the gains, and there's more stickiness in the labor model. We can do lots of really powerful things at our scale, and it aligns with the objectives for our investors, which is to deliver great returns. So I see these companies, I see our business as a force for good. I have enormous pride in what we do. Sometimes it's a little frustrating when you read things in the newspaper.

Marc Rowan 16:53

I'll just pile on that. I mean, Jon addressed a number of the hiring and social practices. Think of how fast the world is changing. Think of how much uncertainty. There is the notion that we can, at our scale, with the number of data points that we have, connect them to a fast-growing way of accessing new technology, of accessing new research, of adapting to changes in the government's posture. This is one of the great abilities of private equity, is to look across a portfolio and to have recognized this problem before, or to have the resources that no individual company can have to be able to address change. AI is going to be one of the most interesting tools across our portfolio, giving them the courage and the confidence to experiment, to move fast, to be change agents. And—at the same time, in this indexed and correlated world—removing them from a quarterly mindset could be one of the most powerful things that we do. Whether we own these companies forever, we behave like we own these companies forever in the belief that if we make good decisions, we will eventually make money from them.

Michael Milken 17:59

I think for me, we've touched, and I'm—beginning to touch on two of the six objectives I had let out and I had set out in 1969, and one of them was the linking of management and ownership. And —one of the largest clients of ours was Penn Central, and I went to visit the CEO early in 1970, and I think there were 20 people in the PR department putting out information about how smart he was. It was kind of an amazing thing to see. Well, when they went bankrupt five months later, it was really hard for that department to withstand it, as they replaced the CEO and put one of the largest creditors as the CEO. And the second one I want to draw up is the institutional base, the idea that we should diversify the owners, their providing capital, and the form of that capital, and if we could get capital provided by people that had long-term assets, it was a lot better than those that financed overnight. So if you look at the institutional base for quote, "noninvestment-grade loans," you can see how it really was almost very low, and then today, it's the largest sector in the market. So I think this gives us a lead in for both of you to talk a little bit about how you see private credit.

Jonathan Gray 19:36

Sure, I guess I'd start, you know, your slide makes a really good point. Why have we seen, in noninvestment-grade private credit, this growth? And it's really simple, because we've created a direct-to-customer model, and by essentially bringing up institutional investors or individual investors in the form of BDCs, right up to the private equity sponsors, who are many of the borrowers there, they end up getting a better experience, because there's no securitization origination, all sorts of costs getting to them. And for the borrowers, you get certainty, because you're not told the price of your loans 350 over. But if it's raining, it can go up to 500 over, because it's going into a storage business. And that's very powerful. And the events of the last month have shown that, if you've seen what happened in the liquid markets, spreads gapped out, and so that made it harder. Banks, by the way, are a critical portion of all of this. But of course, when they're distributing this paper, they're dependent on where the high yield market is, where the leverage loan market is, because this market now has this large base of direct lenders and storage, you've continued to see financing. Apollo and Blackstone teamed up on a large financing to buy the acquisition that was done of a software division of Boeing, and that happened in the middle, the teeth, of this storm. So I think it's very good for creating additional robustness. The second thing I'd say on private credit is, the main event now is shifting from noninvestment- grade, which will continue, to investment-grade private credit, the financing of the real economy. So energy infrastructure, consumer finance, fleet finance, real estate, all of that. There's just an enormous opportunity. This slide shows $30 trillion here, and we're at the very beginning of that. And for investors who have investment-grade portfolios to be able to trade a bit of liquidity for higher returns. In the case of our insurance clients, something like 175 basis points higher returns for the same A-minus-rated risk and a little bit of a trade-off in liquidity, that is a very good trade for long- term pools of capital. So to me, this is a mega-trend. Marc has been a leader. You obviously started the noninvestment- grade business, Mike, but we see this as powerful. And back to Marc's comments, it feels like very early innings. This shift has just begun.

Michael Milken 22:16

Marc, I know this is an area you've been talking about for a number of years now, and when we think that 99-plus percent of every company in the world is noninvestment- grade, you can imagine when I went to Wall Street in the late '60s, everyone else was focused on 1 percent, I could focus on 99. And I remember in January or in February of '74 Goldman Sachs had taken Singer's investment grade Singer eights and had done a public deal in January. By March, they were downgraded to double B, and they told people to give us a call if they wanted to by ourselves. So this concept of what is liquidity—and I want to just stress, a lot of this occurred, and these markets were created, because of what occurred in '74, so interest rates doubled in one year. Regulation restricted lending. Energy prices skyrocketed. The first oil shock, stock market went down by 50 percent and unemployment doubled. And so, as Jon just pointed out, Apollo and Blackstone and the people that have given them their funds to manage provide a stabilizing force in this market. So Marc, you've been a leader in talking about private credit. Why don't we talk about the evolution of private credit over the last couple of years?

Marc Rowan 23:54

So I start, Mike, by saying credit in any economy only comes from one of two places: comes from the banking system or the investment marketplace. There's kind of no third choice. The banking system is really good at some things, but if you think about the fundamental model, they borrow short they are—It's hard for them to land really long. Having said that, in 2008, again a big jumping-off point, financial institutions in the US and around the world were under pressure, and they were constrained in the way they approached their business. We lost one of the best lenders anywhere in the form of GE Capital, in terms of how GE ran their business. And so the need for financing has not disappeared, but the provision of financing was impaired. If you look at what we've tried to do and now, what Jon and team are doing, and I think the easiest way to demonstrate is employment. There are 3,200 people today who work at Apollo in the asset-management business, another 2,500 who work in retirement services. There are 4,000 other people at Apollo who do not carry an Apollo business card, who come in every day and all they do is originate credit. They carry a PK Aviation business card, doing aircraft finance; a Wheels Donlen, doing fleet finance; a business card, doing infrastructure finance, warehouse finance, securitization finance, insurance finance, and on and on and on, very reminiscent of the very granular origination that GE Capital used to do. And so I look at where the world is going, and I won't repeat, but the world is going building long, dated, next-generation assets. I don't think our banking system is going to do it in total. I don't think our public markets are going to do it in total. And even for a firm like ours, with a very large private credit business, we're just not relevant yet. I find that to be among the most exciting opportunities is in that we're large, capable of doing almost anything, but not relevant in the overall scale of things. And we're starting to get a little bit of the absence of headwind. I won't call it a tailwind, yet, the headwind being regulatory, because almost every financial system regulator in the world that I deal with is a bank regulator. That's how the system was constructed. This non-bank thing was very complicated to them, but I think they're starting to get that. It's diversifying for the financial system. It's protective for the financial system. We're diversifying risk across numerous counter parties. When Europeans look at the success of the US capital markets, they're looking at a diversified system. I've gone in Europe now from what I call an apology tour. I never know what I'm apologizing for, but it's usually something to "Now we're fully engaged in, how do we get some of this here? How do we start a securitization market? How do we attract private capital?" You see this most in the UK, where the UK Government has gone all in on attracting private capital, and we're starting to see it in Germany. And so, it's driven by a fundamental, the need for something, the need for financing. It's driven by a fundamental in that this is not what the banking system does. This is an adjunct to the banking system, and now it is driven by a further fundamental of regulatory is no longer a headwind. It is at best, neutral today, and I believe that the more we educate, the more experience we have, this will become a bit of a tailwind, because it is diversifying and protective of the financial system of most countries.

Jonathan Gray 27:40

Can I just add one thing to that? I think Marc makes such an important point, which is the fundamental restructuring of the economy, that I believe is underway as a result of technology, is going to demand just enormous amounts of capital. These data centers at scale, you know, billions and billions of dollars buying GPUs, redoing our energy and power system. This is enormous, and it's global, and this form of capital is very helpful in that regard. The other thing I'd say is on the banking side. The reason why the private capital is turning out to be a great partner, is the banks now are thinking about—forget regulations—How can they drive higher ROEs? And just making loans and holding them may not be the best. So making a loan, keeping 20 percent of it, partnering with somebody like us, keeping the origination fee, maybe some ongoing servicing fee, is a great partnership. So this Advent, just like you brought the whole high-yield, noninvestment-grade world, you know, to get access to capital. I think that's what this is, and it's definitely very much tied to the shift in the global economy and the acceleration of technology, and it's one of the reasons why I think the US is so well positioned. And I do agree with Marc that when you meet with European policy makers, as opposed to "No, no, no, no, no," there's now much more of "Hey, how can we help you here?" I think it will take time to get things to change in Brussels, but I think there's an opportunity, and I think we'll see it more and more around the globe.

Michael Milken 29:11

We're really talking about a couple of things here. One, Marc, human capital. You have a few thousand employees, but your companies you control have hundreds of thousands, and you also — mentioned GE, and I remember when Jack Welch left, I went and visited the next CEO, and I told him he'd be the last CEO of GE, in a sense that grew from within. And so the growth of the private equity industry, if you wanted to be a manager and you wanted training, you went to work for GE. But what changed? They identified their top 32 people, followed them, Then they're 16, and then they picked their five. But private equity offered a more exciting opportunity when they got to those 32: You've already managed a billion-dollar business. You're talented. Now we're going to offer you ownership and a partnership and leadership. And so what I mentioned to him is, by the time you get to the 16, the 16, you pick maybe three you would have picked because they're all gone. And by the time you get to the five, they're all gone. And if we look, as Marc said, a great company in GE Capital, but being part of that company, they could no longer compete for talent with Apollo, with Blackstone, from that standpoint. And so what's so interesting is the recovery of GE required them to go out and hire their first CEO that didn't grow in GE, Larry Culp from Danaher, who's done an amazing job for GE. So wasn't Danaher a private equity-backed company? It was, yes, by you, Marc and us, and when Danaher went public, it took 400 Danahers to make one GE, and at one time, Danaher was worth more than GE. But I want to get back to the people that you have working for you. Your companies are really the people that are managing these assets for many of the world's largest investors and creating that team. And I think we underestimate the concept of financial technology, those preferred stock with warrants are all those unusual securities that have been traded or picked preferreds today, and so on in order to meet the needs of the company. And the lack of that knowledge in Europe of these capital structures has held them back. And so we talk about AI, we talk about other technology, but in many ways, we don't talk about the imbalance between the United States, the people that work for Apollo or Blackstone here, or others in their knowledge, in addition to the resistance of Europe. You've mentioned Europe a couple of times here. How do you see; let's look, start looking for it. How do you see Europe unfolding for you? Jon?

Jonathan Gray 31:05

Yes Well, Europe has always been a big part of our business. I think, obviously demographically, it's more challenged that labor, flexibility is harder. There's not the same presence of technology, but there's an awful lot of GDP there. There are a lot of very talented people, and I think now more than ever, they want to, you know, get on the playing field. And I think the openness as a result of what's happening policy wise, coming out of the United States, I think will force some action. And you saw that with the Germans announcing their breaking of the caps in terms of military spending and doing more domestically. I think there is enormous potential there right now. Certain industries, travel, luxury, you know, green energy have done well. I think there is opportunity for Europe to do better, but I think it does tie to a regulatory mindset. If you think about what the financial crisis did, followed by COVID, it really grew the regulatory state everywhere, particularly in Europe. And I think the Europeans would benefit to look at what the Japanese have been doing the last four or five years, even longer. Ave Kishida today! I mean the openness now to getting companies to, you know, accept ways to maximize value, the willingness to allow folks like us to sell our products to individual investors. There's a renaissance there that's leading that market higher, and I think it's going to help growth there. And I think Europe now, in response to a much different policy environment, there's an opportunity. And so as investors, I think you do have to look there, because in many cases, there are assets that are much cheaper on a relative multiple basis and spreads that are much wider. So I agree with Marc's view.

Michael Milken 34:14

Marc, you your view.

Marc Rowan 34:16

I think look from a credit point of view, I think Europe is going to be one of the best credit markets in the world. They want everything that the US is doing the government start more leveraged the banking system, less flexible capital markets, not as deep insurance market, non existent for long dated capital because of their regulatory scheme. It is going to take a lot to develop a financing market. I think we're going to earn wide spreads for flexible capital in Europe for a period of time. I think it's going to be a great place to do business. I'm less bullish on the equity side for some of the macro trends that Jon cited, but I think it's going to be an awfully interesting market for us, and one we will spend lots lots of time in. I will pile on a little bit of the commercial for Japan, when we look back at the change, never has so much change been affected by one unelected official, the head of the stock exchange. There just ranking these companies and forcing the disclosure and forcing standards. It is just a sea change, and I know for us, I try to pick a place in the world to get our partners together. That's important. All Apollo partners are on their way to Japan next January.

Michael Milken 35:30

So it's very interesting, when we look at the size of the world economy today, at one time, more than 80 percent of the world's economy was the United States, Europe, and Japan. Today, it's less than 50 percent of the world's economy. Those slides you're looking at are related to market cap, not necessarily, but if you go back to 1988, if we put that up, just the realization that 40 percent of the entire market cap in the world was in Japan, and eight or nine of the largest financial institutions were in Japan, and Japanese stock market capitalized capitalization was 33 percent more than the US, and today it's around 5. When did you see this first change occurring in Japan? Hiro, who was the head of our global capital markets group, who was in charge of the pension fund there, plus a very four-sided Prime Minister allowed them to sell $800 billion of Japanese government bonds that were yielding between zero and one, and buy any investment in the world and turn money over the two of you and others to manage. So a dramatic change [was] occurred. Let's go around the world now. Both of you are highly international firms today, and what were known as emerging countries in the 1980s today are a substantial part of the world's economy. So Jon, let's start with you. Let's take us a quick trip around the world today, to South America, Latin America, let's say Middle East and Asia.

Jonathan Gray 37:28

Emerging-market investing has been tough, with a few exceptions, rule of law, currencies, lack of leverage you can get on the equity side, lack of liquidity to exit. It's been a small piece of what we've done, but I would say it's underperformed, and really underperformed relative to the risk. I'd say Latin America is always interesting, but often you get this leftward movement in governments who are very anti-capital, and that's made it tough. Africa difficult from things of scale that we want to do. I'd say today, Southeast Asia is more interesting, certainly because of the pivoting of manufacturing capabilities and the rise of the middle class in places like Vietnam and Indonesia. The biggest place for us, by far, in the emerging world, and has been the last decade, has been India. That's where we've leaned in. In Asia, in our private equity business, our real estate business, it's delivered exceptional returns. And there you've got a country that is moving towards growth and capitalism, with the government that's building physical infrastructure, legal, capital markets, infrastructure. It's not China in terms of the pace things happen, but the path of travel there is very positive, and we continue to lean in. I would expect for the next couple of decades, it'll do quite well. And interestingly, it's been the best market in dollar terms over 10, 20, 30 years, right up there with the US market. So I would continue to be very strong on India. I think Southeast Asia and the emerging market area has some promise. I think the rest of the world, we're going to look on a selected basis.

Marc Rowan 39:13

So Marc, I don't want to repeat that, because I think I agree with a lot of what Jon said, but I'll take a different stab at it, giving a speech in Bogota. I'm at the Bogota Gun Club, of all places. And someone asked me in the audience if, if I'm going to invest in Colombia. And I asked by a show of hands, how many people in this room would have seen the deal before I saw it, if it were offered to me. 100 percent of the hands. we [we?] When we started this business, capital in large scale was scarce. You could go to an emerging market and show up with capital and you were offering something unique. You are no longer offering something unique. Capital formation in Mexico, in Colombia, in China, and most of the world, with the exception of Japan, has, has really taken hold. And so when I look at all these emerging markets with Jon's overlay of rule of law and politics, I ask another question, what don't they have? Every emerging market is different, but also I think every emerging market is the same. They have two products. They have equity and bank debts, and you don't want to offer either, because the local equity scene is now capable of financing without you, and banking is often tied to the government and is willing to do things at rates and on terms that you would not do. And so our approach to all of these markets is to offer what's not there. Let's do something just below the bank in India, let's go lend 750 million against the Mumbai airport. Let's do back-leverage against a portfolio in Japan, let's offer hybrid capital elsewhere in the world, let's offer reinsurance. Anything that does not exist, I believe, is open for business subject to the requirements that Jon set forth, I also agree. I think India has been, by far and away, the best market at scale for us for a long period of time, and I expect it to continue to be, but there are pockets of things to do everywhere, and now, when we're doing more investment- grade financing, it is possible to do things with corporates. It is possible to do things with Western companies financing their operations elsewhere. I think you're going to see all of us, not substantially, but on the margin, do more in these other markets.

Jonathan Gray 41:32

I would add one geography we didn't hit, which is the Middle East. You mentioned, well, I mentioned, and they are long energy, in a world that is short energy, and the push by the governments there, almost all of them now to develop, to focus on their domestic markets, to move beyond just energy: that is very exciting. And they're putting in place rules of law and structures and capital markets, things, many things you advocate for my care. I think the promise there is quite high

Michael Milken 42:05

Marc. You know, I think both of you spent a lot of time. I've encouraged people. If you haven't visited Saudi Arabia or UAE or other countries, you should. The change is so dramatic, and the sophistication of people and business and finance. Is it a level that's world-class mark? Do you want to make any comment?

Marc Rowan 42:29

I'd say the first generation of expats and employees were the people who could not get jobs elsewhere in the world. This generation is the best of the best. We are a massively large investor in the UAE. We're a very large investor. And looking at projects in Saudi we're somewhat of invested in Qatar and elsewhere. I'm giving an interview to a local press following an investment. They said, Well, why would you invest here? And I look at them, and I say, for the returns. It's not that they need our money, but they want to encourage the development of a capital market, the development of a capital market system. I love being invested in a country where they are more concerned with my return than I am. That's not always going to be the case, but right now, it actually feels great. And in a changing world, good governance matters. And in these places, you can object to lots of things. You can buy into lots of things, but it's hard to argue with good governance and having a plan.

Michael Milken 43:31

So Jonathan, it was interesting. You mentioned Southeast Asia, and that population is almost double the size of the US, and when we've done these surveys of who believes in the ideal of the American Dream of upward mobility based on your ability, your perseverance, not necessarily what your last name is or what you look like. It's Southeast Asia, and you mentioned India, both of you. It's interesting, if you believe demographics is destiny. So there's six kids to seven kids born every year in India, for every child in the United States. It is projected that India's population might be double China's by the end of the century. There are already 200 million more children in India. So they they're going to need a lot of infrastructure and a lot of development. So Jonathan, many years ago, we used to think about, you know, how do you market yourself or ideas, and now I always look forward to your Christmas video that you put out here. Okay, so let's take a look at a minute of your Christmas. We're not giving you the whole hour here, but let's take a look at a minute, if we could, and then you can tell us. You know, how the idea came up, et cetera, if we could run that video. Oh, good. Technical difficulties. All right. So why don't we take a second while they're trying to find it? We have no video. What was your idea behind that? So—

Jonathan Gray 45:26

There is a method to the madness. You know, when I stepped into this role seven and a half years ago, one of the first things I realized was the firm was growing so large, we couldn't have a Christmas party, and it felt a bit like Scrooge, right? You were going to show up and say, no Christmas party, because we were holding it at the Waldorf, and you would spend as much time in line getting your coat and then getting your coat back as you would at the actual party, thousands of people. So the thought was, we've got to do something that connects everybody. And we decided to do sort of a spoof. I had this idea, we'll make it like The Office. I do have a bit of excessive enthusiasm, and I drive everyone a little crazy, shocking. And so that's what the premise was. And then with each passing year, and we have all the senior people at the firm do stuff, and it's grown and grown. And what happened with that first video is it left the building, and not only our employees loved it, but our clients, our shareholders, people really enjoyed this. They liked to see people in finance making fun of themselves and looking silly and so forth. And that really became, you know, a powerful tool. You'd land in a meeting in South Korea and you'd have—a first question would be, What's this year's holiday theme going to be? So you start putting real pressure, because we're competitive, we want it to be good. And underlying this also, at the end of the day is, you know, we don't make physical products. We're in the trust business. And so if you can humanize yourselves and connect with people, I think that's very positive. And the last couple years, we've begun to figure out that if we add a little bit of music. Taylor Swift, this year, we did country songs, I don't know, people enjoy it, and our people have a great time. And the only problem now is the pressure inside the building is growing so great. We've already had the first meeting. I spend way too much time on it, but it's a lot of fun. And I do think in a world where also, you know, the press and a lot of people politically, you know, portray us in a certain way, we see ourselves, I know Marc does the same way as a firm with really great people who care a ton, who are good human beings who can laugh at themselves. And having a little bit of holiday fun feels like it makes sense.

Michael Milken 45:54

So it was interesting. You a year ago, did it? So? Taylor Swift. Your whole thing. We used James Brown financing America. So he took a tired James man. We just changed the words a little bit and and had him sing it and dance it with some pictures of all the different companies. But I think the humanization is an important element. And you know, Marc has stressed that with his dress, he wants you to know he's just a regular guy up here from that stand. I'm

Marc Rowan 48:25

actually dressed up for you.

Michael Milken 48:28

So Marc, how do you attempt to humanize now I know that as we grew and eventually had picnics for 30 and then 1,000? My secret was, if you were an employee, you had one color of T-shirt. If you were a significant other or spouse, you had another color of T-shirt. If you were a kid of an employee, you had another color. So if you didn't remember all one-thousand people's names, you linearly know where they were coming to the picnics. From that standpoint, Marc, what about yourself?

Marc Rowan 49:08

Jon is touching on what I think is the key to our success. At the end of the day, it is we are a great home for talent, and that talent works well, and we have been blessed. But there is nothing that says that we are entitled to this on a go- forward basis. And so when I took over in the role, I used to think that the job of the CEO was to do something. I now realize the job is to do nothing. My only job is to make it easier for everyone else to do their job, and then to try to make sure that the culture holds together. People come to Blackstone, they come to Apollo because we are at scale, but they can have a little bit more fun, they can be more creative, they can be a little bit irreverent. They can explore new ideas. And the larger we get, the more pressure there is on this thing. And so whether it is the video, so, or does the other ways we make fun of ourselves, or the thing that we've been working on this past year, and I've said this to many of you, How do you get entities that have been really successful to come in and play to win every day? Because, as you know, the history of successful enterprise, whether you're an industrial company or a financial company, is a reversion to mediocrity. How do we keep pushing ourselves, pushing the organization to play, to win? How do we make it safe, to fail safe, to experiment? How do we just maintain that culture? And there's no one answer to it. It's an environment that we're trying to create, and some of it isn't poking fun of ourselves. Part of some of it is to recognize that we want these people to spend their entire careers at our firms. That means they're going to experience any number of life- changing, positive and negative events. How we deal with people in moments that matter over the 25 years they're with us is among the most important things that we do. How do we deal with them as humans? How do we not systematize? this is the balancing act of the job. Yes, you know, every once in a while we do strategy, but if we're doing strategy every year, we have the wrong strategy. It's all about being a great manager or place or home or recruiter of talent and keeping that talent happy. I can't manage 10,000 people, but I have 200 partners. All I have to do is get my skill set to 200. I'm not saying it's that good yet, but if I get these 200 people bought in, and they spend their careers at Apollo, we win. And if I start losing them or turning them over. We lose.

Michael Milken 51:19

I'm a little concerned for the 20- and 30-year-olds that might be watching you somewhere in the world now, thinking they only can have a 25 year career with Apollo rather than a 30, 40, or 50 year with crime.

Marc Rowan 51:57

I can't, I can't. Slavery has unfortunately been abolished.

Michael Milken 51:59

Okay? We're not gonna, but you don't have any retirement age.

Marc Rowan 52:04

Thankfully, thankfully, this is your 40 for me. Yeah.

Michael Milken 52:07

So, in closing, I'd like to ask you each a simple question, what does Blackstone look like 10 to 20 years from now? And what does Apollo look like 10 to 20 years from now?

Jonathan Gray 52:22

I think it is a much larger version of what we're doing today, that the seeds we're planting now can grow to be very tall trees, that the need for private capital, as we've talked about is enormous, that the number of investors around the world will continue to grow. It will continue to be pension funds and sovereign-wealth funds. It will be insurance companies. It will be individual investors, something we didn't talk a lot about. And we will be engaged primarily in private assets. And what we will continue to do is be a full-service capital solution provider, so that we can meet with a corporate or a bank or any sort of institution in the world and say you want higher octane equity to be your partner or buy an asset, or you want some of your pick preferred in a hybrid capital, or you want senior debt or junior debt, that we have this enormous amount of capabilities, but also enormous amount of information, because we're operating at scale, and because we see where the world's heading, we're able to connect dots and go where the puck is. And I want us to be as entrepreneurial, attracting as many great people as possible, and at the end of the day, delivering great returns, premium returns, to the customers. If we do that, I really think the sky's the limit, but you've got to wake up every day. You've got to play hard and [be] people who care. And the danger is, as you get bigger, you become bureaucratic, you lose that edge. We can never let that happen,

Marc Rowan 54:04

So I'll pick up just where Jon started. I think our business promise is excess return per unit of risk. I think that's why we exist. I'm very optimistic about the demand for private assets, because we built a whole industry out of a really small bucket of institutional clients called alternatives, and then we found individuals, and then we found retirement services companies, and then we found that institutions might use private assets in other parts of their portfolio, like fixed income. We now have an even bigger market. I think that traditional asset managers will be our largest clients in the future, because the new form of active management, I think, is not going to be the buying and selling of stocks. It's going to be the addition of private assets to mostly public beta. And so our role in this, being driven by this trend, along with retirement and financing our jobs, is to originate good assets every day. We have to wake up and we have to be very careful as an industry not to grow our capital base faster than our capacity to produce good returns. I think in the scale of financial institutions, we're a little financial institution, both our firms. We have an awfully long road ahead of us, but it will start in with the people that we have and the teams we build.

Michael Milken 55:24

Thank you. Jon, thank you, Marc, best of luck to the future. [Video plays]

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