Marc Rowan and Apollo: Redefining Private Credit

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The financial landscape is currently facing a period of transition, with private credit emerging as a crucial force in reshaping how businesses access capital. Traditionally, banks dominated corporate lending, serving as the primary channel for loans and other forms of debt financing. However, the 2008 financial crisis marked a turning point. Regulatory modifications, such as Basel III, have imposed more rigorous capital standards on banks, limiting their capacity to participate in high-risk lending and creating a notable gap in the marketplace. In response, asset managers and private credit funds stepped in to fill this void, offering customized solutions to meet the complex demands of borrowers. The private credit sector has since evolved into a $1.5 trillion industry, distinguished by its adaptability, scalability, and readiness to engage in areas considered too risky or specialized for conventional banks.

Marc Rowan, the Chief Executive Officer of Apollo Global Management, plays a crucial role in this transition. **A forward-thinking leader with a profound understanding of market dynamics**, Rowan has repositioned Apollo as a frontrunner in the private credit sector. His professional journey, which began at Drexel Burnham Lambert during the volatile junk bond era, demonstrates a consistent ability to navigate and capitalize on financial instability. Rowan has directed Apollo beyond its initial focus on leveraged buyouts, establishing a diversified investment platform where private credit now represents more than 70% of the firm's $700 billion in assets under management. His leadership is driven by a belief in the "new order" of finance, where asset managers, rather than banks, facilitate the global flow of credit.

Two recent articles in the *Financial Times* provide key insights into Rowan's vision and its execution. The first article, *"Marc Rowan, the Man with a Plan to Remake Wall Street,"* discusses Rowan's career, from his early days at Drexel Burnham Lambert to his current role as Apollo's CEO. It highlights achievements, including the creation of Athene, a life insurance franchise that generates consistent capital for Apollo's credit business. Athene has become a core component in the growth of private credit at Apollo, with the insurer managing over $300 billion in assets. Anticipating synergies between insurance and credit, Rowan has helped Apollo expand operations while maintaining a competitive edge.

The article also highlights Rowan's efforts to rebrand Apollo from a strict private equity company to a collaborative and people-friendly firm. His focus on partnerships, such as those with BNP Paribas and Citigroup, underlines a strategy aimed at integrating Apollo into the broader financial ecosystem. These collaborations extend Apollo's reach and represent Rowan's commitment to building a business that bridges traditional banking and alternative finance.

The second article, *"Citigroup Strikes $25bn Deal with Apollo to Launch Private Credit Venture,"* discusses one of the most significant projects under Rowan's leadership. This partnership is a unique collaboration between a traditional banking giant and a private credit leader, aiming to lend $25 billion over time. Citi, leveraging its network of client relationships, will procure loans, while Apollo supplies capital via its direct lending funds, its insurance subsidiary Athene, and external collaborators like Abu Dhabi's Mubadala. This collaboration enables Apollo to tap into higher-yielding investment opportunities, including loans for leveraged buyouts, a sector conventional banks often avoid due to regulatory constraints.

The article also details the broader implications of the partnership. For Citigroup, it is a strategic move to reclaim the market share lost to asset managers in recent years. For Apollo, it expands opportunities in private credit, reinforcing its status as a central player in global finance. The agreement highlights the mutual benefits of cooperation between banks and asset managers, where each party uses its unique strengths to create value.

Together, these articles offer a comprehensive picture of Rowan's leadership and strategic vision for Apollo. By launching initiatives like the Citi partnership and leveraging platforms like Athene, Rowan has positioned Apollo as a leader in the evolving private credit market. His ability to anticipate market trends, build scalable solutions, and create strategic partnerships cements his role as a transformative figure in finance. In an era where distinctions between traditional and alternative financing are increasingly blurred, Rowan's approach illustrates how private credit can redefine the financial landscape, fostering growth and stability in a dynamic global economy.

Apollo’s Evolution Under Marc Rowan:

Strategic Repositioning:

Under Marc Rowan’s leadership, Apollo Global Management has transformed from a traditional private equity firm into a sophisticated “financing machine” powered by its insurance platform, Athene. This strategic shift has redefined Apollo’s approach to capital allocation, establishing it as a dominant player in private credit and asset origination. Rowan’s vision has reshaped Apollo’s business model, leveraging Athene to create a sustainable, scalable source of long-term capital that distinguishes the firm from traditional financial institutions.

Apollo’s transformation began after the 2008 financial crisis, a period marked by significant dislocation and opportunity in financial markets. During this time, Apollo identified a niche in acquiring undervalued insurance assets. With Rowan at the helm, the firm established Athene Holding Ltd., focusing on fixed and fixed-indexed annuities. These products, offering predictable liabilities, provided a strong foundation for Athene to channel stable, long-term capital into Apollo’s investment strategies. Over time, the partnership evolved into full alignment, culminating in their merger in January 2022. This integration was pivotal, enabling Apollo to realize its vision of a vertically integrated financial powerhouse.

Central to Apollo’s strategy is its robust asset origination platform, which produces high-quality, investment-grade credit instruments tailored to Athene’s liability profile. As a provider of fixed and fixed-indexed annuities, Athene requires long-duration assets to match its liabilities effectively. Apollo’s ability to originate such assets at scale ensures Athene can provide attractive yields to policyholders while strengthening Apollo’s balance sheet. This symbiotic relationship enhances financial stability and diversifies Apollo’s revenue streams, reducing reliance on traditional private equity investments.

Rowan has leveraged this integration to position Apollo as a leader in private credit. Athene’s consistent capital inflows enable Apollo to originate and retain private credit assets at a scale unmatched by banks constrained by regulatory and capital requirements. This allows

Apollo to align investment-grade credit instruments with Athene's liability-driven strategy while pursuing high-yield opportunities across sectors. This approach ensures resilience across market cycles, as Apollo operates with flexibility and independence from external funding.

By 2023, Apollo had established itself as one of the largest private credit originators globally, achieving organic growth of approximately $50 billion annually. This scale enables Apollo to expand into high-demand sectors such as infrastructure and renewable energy, which require large-scale, flexible financing solutions. Unlike traditional banks constrained by regulations or balance sheet limitations, Apollo has the capacity and expertise to structure bespoke financial solutions. This has made the firm a critical partner for large corporations and public-private initiatives driving global sustainability goals.

Athene is not merely a source of funding but a strategic enabler of Apollo's ambitions. Rowan's vision ensures Apollo's model is scalable and resilient, leveraging Athene's liabilities to generate stable returns while deploying capital innovatively. This alignment has also helped Apollo establish partnerships with global institutions such as Citigroup and BNP Paribas, solidifying its position as a preferred lender. These partnerships enable Apollo to underwrite complex financing deals in areas overlooked by traditional banks, such as structured credit and specialty finance. For example, Apollo's expertise in structured credit supports renewable infrastructure projects, advancing global energy transition efforts.

Market Impact:

Rowan's vision extends beyond immediate growth. His goal to double Apollo's assets under management to $1.5 trillion by 2029 underscores the firm's commitment to scaling operations. This growth trajectory positions Apollo as a significant competitor to traditional Wall Street banks, particularly in credit markets. By combining asset origination, insurance, and investment expertise into a vertically integrated model, Apollo is redefining the financial industry's approach to asset management and credit underwriting. The result is a business model that provides value to policyholders and investors while reshaping modern finance.

Apollo's repositioning under Marc Rowan demonstrates how innovative thinking and strategic alignment can transform a firm's trajectory. By leveraging Athene as both a source of capital and a strategic advantage, Apollo has created a sustainable, scalable, and competitive platform. This transformation reflects Rowan's leadership and offers a blueprint for how financial institutions can adapt and thrive in an increasingly complex and competitive environment.

Citi-Apollo $25 Billion Deal:

Overview of the Deal:

The significance of Apollo's $25 billion partnership with Citi lies in creating a win-win scenario by leveraging the strengths of both institutions in an evolving financial environment marked by increasing demand for private credit. The program combines Citigroup's client reach and loan generation capabilities with Apollo's capital resources and asset management expertise to finance approximately $25 billion in debt opportunities over the coming years. This partnership not only expands Apollo's credit business, showcasing how asset managers are stepping into roles traditionally dominated by banks, but also reflects the broader trend of collaboration between traditional banks and alternative asset managers to meet rising demand for private credit.

The deal involves Apollo acquiring a significant portion of Citi's loan book, expanding its private credit portfolio. This allows Apollo to assume the bank's role in managing and profiting from these loans, further cementing its position as a lender of choice for corporations. Apollo gains direct access to high-quality loans sourced from Citi's corporate and sponsor client base, which benefit from Citi's stringent underwriting standards and regulatory compliance. By managing these loans, Apollo secures a predictable income stream from interest payments, boosting its position in the private credit market. Direct access to a robust pipeline of lending opportunities enables Apollo to deploy capital into high-quality loans aligned with its investment criteria, such as buyouts, corporate carve-outs, and deleveraging. The partnership also enhances Apollo's private credit portfolio by providing access to financing opportunities that would be challenging to secure independently without Citi's expansive client base and capital markets expertise.

The program is further supported by strategic partners like Mubadala Investment Company and Apollo's subsidiary, Athene, which provide increased capital resources, diversified investment opportunities, strengthened partnerships, and enhanced risk management capabilities. These elements collectively contribute to the growth and resilience of Apollo's private credit portfolio.

Citi, on the other hand, reduces its exposure to loans, gains immediate liquidity, optimizes its balance sheet, and retains client relationships. The collaboration focuses on non-investment-grade lending, a segment with higher risk due to borrowers' lower financial stability, despite Citi's stringent due diligence. By partnering with Apollo, Citi transfers these higher-risk loan exposures to Apollo and its affiliates, reducing risk-weighted assets on its balance sheet. This enables Citi to reallocate capital more efficiently, comply with regulatory capital requirements, and focus on core banking activities. Meanwhile, Apollo benefits from acquiring these loans, which, despite their risks, present potential for higher returns. Apollo's expertise in managing and pricing such risks enables it to turn higher-risk loans into lucrative investments within its private credit strategy. Reducing risk-weighted assets also improves Citi's capital ratio, such as the Common Equity Tier 1 ratio, enhancing financial stability and flexibility for future investments and lending activities. Through this partnership, Citi continues to source and originate debt deals, while Apollo provides capital, allowing Citi to earn origination fees and maintain strong client relationships without retaining these loans on its balance sheet.

Strategic Implications:

Traditional banks like Citi have been constrained by stricter post-2008 regulations, making it harder for them to provide large-scale, flexible credit solutions. Today, US banks represent less than 20% of debt capital to US businesses and consumers, with asset managers increasingly replacing them as key pillars in the credit ecosystem. Marc Rowan's broader vision positions Apollo to step in with deep pools of capital from investors such as pension funds, insurance companies, and private equity funds. This strategy not only substitutes banks but also surpasses them by providing greater amounts of capital with fewer regulatory constraints. It includes taking on roles traditionally held by banks, such as loan management, transforming Apollo into a key player in the lending ecosystem. The Citi transaction exemplifies Rowan's ability to structure innovative deals that benefit both parties.

Rowan aims to fill gaps in bank services, envisioning Apollo as a "one-stop shop" for corporate financing, offering tailored, large-scale credit solutions that banks often find challenging to deliver. By integrating with its insurance subsidiary Athene to access steady capital for lending, Apollo gains the scale and reliability needed to rival banks in the private credit market. This transaction highlights a paradigm shift in corporate financing, underscoring the rise of private credit dominance over traditional bank lending and the dual-benefit model. Asset managers like Apollo are filling the void left by banks constrained by regulatory hurdles, providing faster, larger, and more flexible loans. The dual-benefit model demonstrates Apollo's ability to structure win-win transactions, enabling banks to offload risk while maintaining client relationships.

Reshaping Wall Street Through Private Credit:

The financial industry is undergoing a dramatic shift as alternative asset managers take on roles traditionally held by banks. Now a $2 trillion industry, private credit has emerged as a key player through its agility and deep capital pools sourced from pension funds, insurance companies, and sovereign wealth funds. Companies like Apollo have positioned themselves in high-demand industries such as renewable energy, infrastructure, and leveraged buyouts, providing the liquidity and expertise to drive these sectors forward. Rowan's vision for Apollo as a "financing powerhouse" is epitomized by its integration with Athene, its insurance subsidiary, and groundbreaking partnerships like the $25 billion deal with Citigroup.

Asset managers' ability to deploy capital quickly and flexibly gives them a competitive edge over banks, which have slower decision-making processes. Unlike banks that syndicate loans to multiple holders, private credit operates within a cohesive framework, minimizing conflicts among lenders and enabling more efficient loan workouts. These structural advantages allow private credit funds to command a premium for their floating-rate loans, which often yield 2–3 percentage points more than banks' broadly syndicated loans. With interest rates rising from near 0% to 5% in recent years, private credit yields have exceeded 11%, attracting a growing number of investors.

Firms like Apollo are not merely filling gaps left by banks but are actively redefining the financial ecosystem by offering bespoke solutions and assuming increasingly complex roles in capital markets. The potential for growth in private credit is vast. As nonbank players capture a larger share of commercial lending, their influence on investors' portfolios and global lending practices will expand. Beyond their focus on senior secured loans, private credit managers are diversifying into investment-grade loans, asset-based financing, and other specialized credit types. This evolution broadens the pool of borrowers, democratizing credit access for those often overlooked by banks due to regulatory or risk-aversion constraints.

Private credit is also expanding into higher-risk commercial real estate, a sector where banks are reducing exposure. This ability to provide tailored credit solutions strengthens asset managers' competitive positioning while expanding financing options for corporates. Apollo’s direct lending program with Citi, for example, focuses on high-yield loans that facilitate leveraged buyouts and corporate carve-outs—sectors traditional banks often avoid. This collaboration blurs the lines between traditional and alternative finance, creating a hybrid approach that combines the scale and stability of insurance assets with the agility of private credit. This hybrid model represents a blueprint for the future of finance and lending.

Over the past decade, default rates in private credit have remained on par with the high-yield market, with the largest funds reporting default rates as low as 0.1%. Private-credit managers attribute this to smart lending practices and the stability provided by long-term capital commitments, often locked up for up to 10 years. This removes liquidity pressures, such as depositor runs that can affect banks, allowing credit funds to navigate problem loans without redemption requests. Moreover, credit funds rarely leverage above one times capital, compared to banks that leverage up to ten times. This reduced leverage has kept the sector largely free from regulatory intervention, fostering rapid growth and elevating Apollo and its peers from participants to critical enablers of economic growth.

However, private credit’s rapid growth has drawn attention not just from banks and private equity managers but also from regulators concerned about the concentration of risk outside the traditional banking system. As private credit increasingly captures retail investors, the likelihood of greater regulatory scrutiny grows. Large-scale deals like Apollo’s partnership with Citi underscore the sector's transformative potential but also amplify regulatory concerns. As interest rates fall, and regulation becomes inevitable, private credit must continue differentiating itself to sustain its competitive edge.

Opportunities and Risks:

Opportunities:

Apollo's $25 billion deal with Citi likely signals many future partnerships and joint ventures in the private credit space, both public and undisclosed. For example, on December 3rd, global $10+ trillion asset manager BlackRock finalized its acquisition of private lender HPS after months of negotiations. BlackRock, a diversified asset manager covering equities, real estate, fixed income, and increasingly private equity and credit, recently acquired Preqin for £2.5 billion to enhance its exposure to private markets. As the world's largest asset manager, BlackRock serves as a case study for the ongoing consolidation in the asset management industry. This centralization has significant implications for private credit, making private credit firms attractive acquisition targets for large asset managers seeking diversification.

This trend is particularly relevant as private credit funds grow in volume and diversify their offerings. In Apollo's case, private credit has been fueled by insurance company Athene and its demand for high-return fixed income. With private credit funds now more adept at slicing deals into tranches that appeal to various investors, demand for private credit integration is expected to rise among asset managers of all kinds.

Risks:

The private credit industry is not without risks. From an investor standpoint, private credit firms' business models limit liquidity and investor control. This illiquidity could restrict the industry from expanding its investor base beyond pension funds, insurance funds, and high-net-worth individuals who typically have long time horizons, moderate growth expectations, and low risk tolerance. Sharp economic downturns could also harm average investors significantly.

The industry is susceptible to recursive risks. For example, macroeconomic events like pandemics or wars could cause widespread defaults, leading to revenue losses and reduced investor confidence. This would impair private credit's ability to finance new loans or refinancings during downturns, potentially causing stagflationary effects on the broader economy. As Michael Zawadzki, CIO of Blackstone Credit, noted, the private credit industry is still in its "batting practice" phase, as companies currently rely on diversified financing sources and not solely on private credit. However, investor demand for private credit remains strong.

A key theoretical advantage of private credit funds over banks is their resilience to bank runs. Investor money in private credit funds is locked in for set periods, allowing flexibility to manage losses and defaults. Conversely, banks face greater vulnerability during economic downturns, where panic and mass withdrawals can exacerbate failures. This is especially concerning given reduced capital reserve requirements under Trump administration policies. While private credit funds may fail investors, they are unlikely to become "too big to fail."

The regulatory landscape for private credit funds like Apollo has been favorable, given the industry's relatively low failure rates since the 2008 Global Financial Crisis. However, one emerging risk comes from the FTC's recent antitrust agenda, targeting private credit's confidential role in facilitating takeovers. This concern may be mitigated under a less antitrust-focused administration. On the other hand, excessive deregulation poses risks. Reduced capital reserve requirements under Basel III: Endgame could allow banks to finance more leveraged transactions, potentially increasing competition for private credit. J.P. Morgan, for instance, actively participates in such financing, and other large banks may follow suit.

In Europe, ongoing efforts to deregulate capital markets and establish a European Capital Markets Union could delay private credit's expansion on the continent. The proliferation of European capital markets would boost debt capital market (DCM) activity, creating additional competition. More broadly, falling interest rates, coupled with a hard economic landing and a weak October jobs report, could reduce private credit's appeal by diminishing its competitive advantages in creativity and regulatory flexibility.

Conclusion:

Apollo Global Management's journey under Marc Rowan's leadership exemplifies the transformative potential of private credit in reshaping traditional lending. By addressing gaps left by conventional banks, Apollo has expanded its influence and introduced innovative solutions offering flexibility and accessibility to borrowers. The $25 billion partnership with Citi stands as a landmark achievement, showcasing how private credit can address complex financing needs while redefining collaboration between traditional and alternative financial institutions.

The opportunities for private credit are vast. By integrating insurance platforms like Athene with robust asset origination capabilities, firms like Apollo create a hybrid model that combines the stability of institutional capital with the agility to meet the needs of high-demand sectors such as renewable energy, infrastructure, and leveraged buyouts. This approach broadens access to financing and positions private credit as a key driver of economic growth in regions and industries often overlooked by traditional lenders. Additionally, the ongoing consolidation in asset management, exemplified by BlackRock's recent acquisitions, underscores private credit's expanding role in the global financial ecosystem.

However, these opportunities come with challenges. Private credit's reliance on long-term capital commitments ensures stability but limits access for less sophisticated investors. The potential for macroeconomic shocks, such as defaults during recessions or geopolitical crises, could test the resilience of private credit firms. Regulatory scrutiny, which has been minimal so far, is likely to increase as the sector grows and attracts more attention from policymakers. These evolving risks highlight the importance of balancing innovation with careful risk management.

Apollo's ability to navigate these challenges while continuing to innovate will determine whether private credit can solidify its role as a cornerstone of global finance. Its success lies in meeting growing demand while adapting to a changing economic and regulatory landscape. As Apollo leads the way in private credit, it demonstrates the industry's immense potential and underscores the importance of strategic foresight and operational resilience. The story of Apollo and private credit is one of transformative promise—an evolving narrative poised to shape the future of global capital markets.

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