APOLLO

Response to ASIC Discussion Paper on Australia's Evolving Capital Markets

Apollo Global Management

1. Introduction

1.1. Apollo Global Management, Inc. (**Apollo**) appreciates the opportunity to submit responses to the Australian Securities and Investments Commission (**ASIC**) discussion paper released on February 26, 2025 (**Discussion Paper**) regarding the growth and role of private markets in Australia. Apollo is a global investor specializing in retirement services and investment-grade private credit, with approximately $751B in assets under management as of December 31, 2024, across several businesses. In our credit business, we provide financing to numerous constituents by efficiently accessing global institutional and savings capital and tailoring our credit products to financing needs. Apollo has originated approximately $210B of credit during the 12-month period to December 31, 2024, ~75% of which is investment-grade.[1] Our products for individual investors are generally distributed by fiduciary intermediaries.

1.2. In Athene, our retirement services business, we are deeply committed to helping our policyholders achieve safe, long-term retirement income. Athene's balance sheet is comprised of approximately 95% fixed income or cash; 97% of "Available for Sale" (**AFS**) Fixed Maturity Securities on Athene's balance sheet are investment-grade as of December 31, 2024.[2] Taken together, our businesses are centered around (i) the consistent origination of safe, investment-grade credit, supported by broad access to global capital sources, and (ii) providing consistent and safe incremental yield per unit of risk to our clients and policyholders.

1.3. Australia is one of Apollo's key markets in APAC, with a dedicated local presence since 2018. Our Australian team is led by our Senior Advisor and Chairman Australia & NZ, [redacted], and manage approximately $3B of credit AUM, having deployed nearly $2B in credit in 2024.

1.4. The primary origination platform in Apollo's ecosystem of partners and affiliates, with a scaled team in Sydney, is Atlas SP (**Atlas**). Atlas is also one of the largest origination platforms[3] globally in Apollo's ecosystem, specializing in warehouse financing.

- The Atlas platform has approximately 350 professionals globally, with a dedicated team of seven individuals based in Sydney focused on the Australian market.
- Atlas may support Australian lenders with warehouse financing and other forms of capital alongside partner banks by leveraging access to various Apollo-affiliated capital pools. These warehouses are typically investment-grade.

1.5. In addition, Apollo holds a 9.9% common equity stake in Challenger Limited, the Australian Securities Exchange (**ASX**)-listed financial services company specializing in retirement income products and life insurance. Apollo and Challenger have partnered to focus on asset origination and

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[1] Apollo Reports Fourth Quarter and Full Year 2024 Results; Apollo is A/A rated from S&P, Fitch and A2 from Moody's
[2] Athene holds ~$31B regulatory capital and is A1 / A+ / A+ / A+ rated by Moody's, S&P, Fitch, and AM Best, respectively
[3] Platforms that originate loans to third parties; see here for additional detail on Apollo platform origination

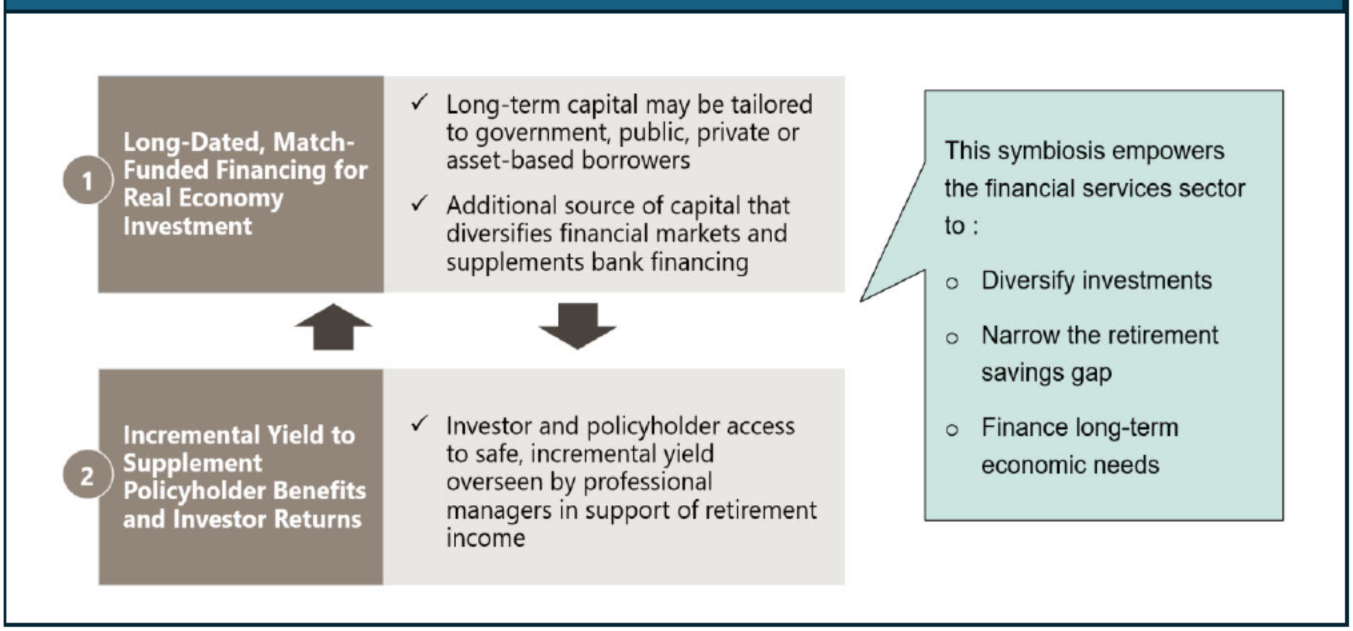
distribution, via which Challenger Life (Challenger's retirement income business) has access to Apollo's private global credit and asset origination capabilities and through which Challenger (through Fidante, Challenger's funds management business) may act as exclusive distributor of Apollo's Aligned Alternatives strategy to Australian clients. Apollo remains committed to the Challenger commercial partnership and is optimistic about asset origination and distribution opportunities in the Australian market.

1.6. Finally, Athora, an entity associated with Apollo, has a minority equity investment in a third-party specialist Real Estate development financier, MaxCap. Under the Athora/MaxCap relationship, Apollo entities are offered investment opportunities, on a non-exclusive basis, which are negotiated on a deal-by-deal basis.[4] To date, Apollo entities have invested A$571M in senior secured investments under the MaxCap SMA.

1.7. Drawing on our investment and capital raising experience across global markets and within Australia, we are grateful to share our perspectives on private markets globally and in the specific context of Australia. In our view, economies tend to be largely private, with private markets offering substantial diversification benefits, a compelling opportunity to close the global retirement savings gap, and the ability to extend long-term financing to the real economy (see **Exhibit 1** below).

1.8. We set out below our observations on the key themes of the Discussion Paper and, in the context of these observations, have set out in Annexure A our responses to the 15 specific questions on which ASIC has requested feedback.

Exhibit 1: Investment in Private Credit Offers a Compelling Economic Symbiosis



[4] MaxCap is run and controlled by its two founders who collectively own ~55% of the equity and control the affirmative governance of the company. Governance is exercised by a six-person board on which Athora/Apollo has the right to appoint two representatives.

2. Key themes in ASIC's Discussion Paper

A. Developments in global capital markets and their significance for Australia

Global trends in public / private markets

2.1. As ASIC has identified in the Discussion Paper (and the accompanying research),[5] there has been a global trend towards increasingly concentrated public markets and growing private markets. We have in particular observed the following:

(a) **Concentration in public markets**: Public markets are increasingly concentrated around the world, with fewer companies representing a greater share of aggregate market capitalization:

- in U.S. equities, there are now ~4,215 public firms listed on exchanges vs ~8,090 in 1996[6] (i.e., the size of the investable public markets universe has halved, on a per company basis). Within the S&P 500 Index, 10 stocks alone make up ~34% of the index's total market capitalization[7]; and
- similarly, in Australian equities, the top 10 constituents of ASX comprise ~47% of the ASX 200 Index, meaning that investing in the ASX 200 is largely a concentrated investment in the big-four banks and a small number of large resource stocks such as BHP and Rio Tinto.[8]

(b) **Growing importance of private markets:** Private markets, in contrast, have become an increasingly important destination for investment activity.

- Private credit is now a ~$40T+ market comprised of historically non-traded credit assets typically held on bank, insurance company or pension balance sheets, which includes direct lending to middle-market borrowers (the traditional market definition and source of the frequently cited ~$1.7-3T market),[9] but also loans to larger investment-grade borrowers, mortgage loans, asset-based lending, and structured products (the large majority of which are investment grade).[10]
- Notably, private companies constitute a substantial share of large companies across global economies, requiring active private markets to provide necessary funding. Per S&P Capital IQ, 87% and 96% of companies in the US and EU (respectively) with a revenue of greater than $100M were private as of December 2024. In Australia, the figure is similar at 96% (see **Exhibit 2** below), and ASX 200 companies account for only ~9% of Australian employment.[11]

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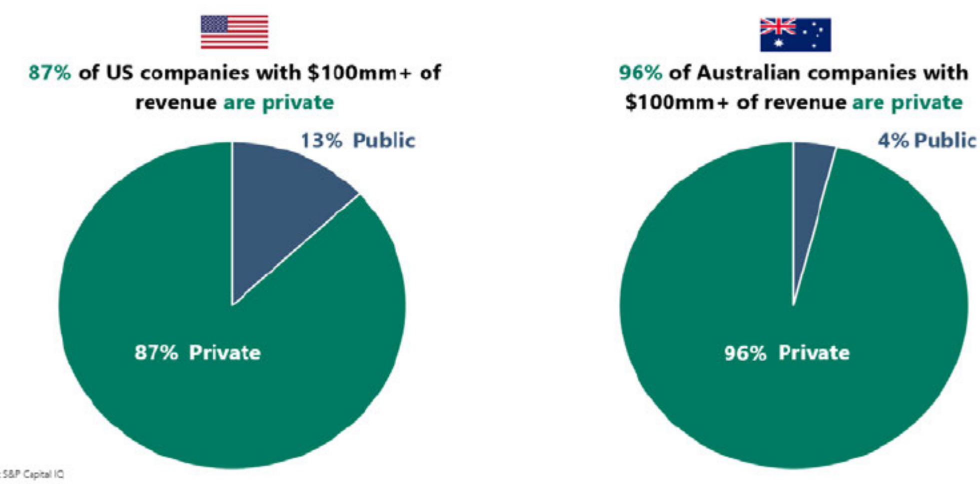
[5] Comerton-Forde, *Evaluating the state of the Australian public equity market: Evidence from data and academic literature*, February 2025.
[6] Source: World Bank; World Federation of Exchanges. As of May 2024
[7] As of March 31, 2025 (Link)
[8] Source: S&P Dow Jones Indices (2023), "Fact Sheet S&P/ASX 200 Index". As of September 29, 2023.
[9] Including Preqin (Link) and the Federal Reserve (Link)
[10] "Investment grade" credit assets are those with a third-party credit rating of BBB- or higher, or loans extended to borrowers with a third-party credit rating of BBB- or higher
[11] Source: S&P Capital IQ, Bloomberg; Note: The Australian Taxation Office cites 600 Australian public entities and 1,739 Australian-owned private companies with income greater than A$100M in 2023 (~74% private), alongside 1,646 foreign-owned companies with an income of greater than A$100M in 2023 (Link)

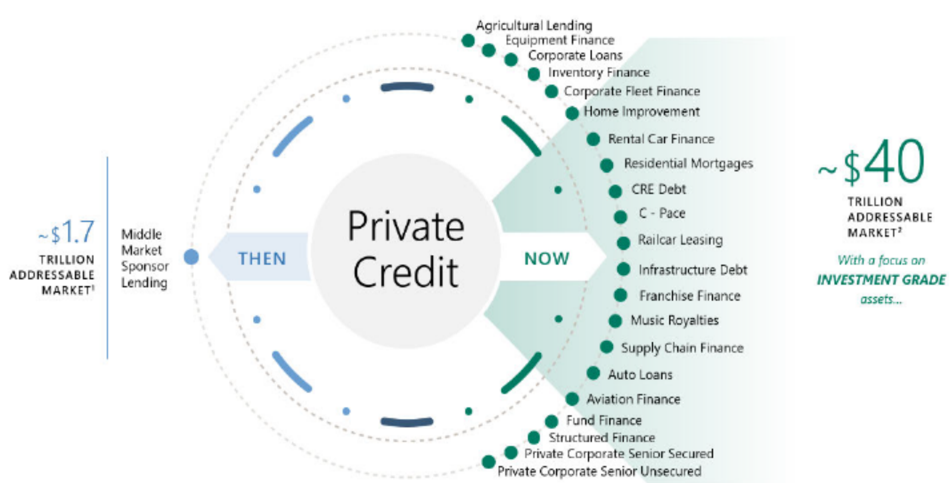
- Historically, market participants viewed private assets as a relatively narrow set of asset classes, typically including private equity, hedge funds, venture capital, and middle-market direct lending. Today, however, "private credit" represents an expansive set of fixed income assets, the majority of which are investment-grade and well understood. In that way, "private" is no longer shorthand for "risky" (see **Exhibit 3** below). In this straightforward definition, each of the asset classes in **Exhibit 3** are both "private" and "credit."
- The recent growing demand for private capital across the Asia-Pacific region and Australia has led to a more active private credit market.

Exhibit 2: Share of Public and Private Companies with >$100M Revenue



Source: S&P Capital IQ

Exhibit 3: Private Credit is a ~$40T+, Largely Investment Grade Market



[1] Preqin Private Debt AUM as of June 2023. [2] Represents the views and opinions of Apollo Analysts. Not an exhaustive list. Subject to change at any time without notice. For discussion purposes only.

<u>Growing availability of private capital and benefits</u>

2.2. The growth of private markets is driven by several factors. One key factor is, in our view, post-Global Financial Crisis (**GFC**) policy and regulatory changes.[12] In the U.S. and, by extension, globally, active central bank intervention involving several rounds of quantitative easing (in the U.S. effectively providing ~$8T of liquidity as reflected the Fed's balance sheet[13]) masked the impact of post-GFC regulation on the availability of financing from public markets. Over the last few years, however, the impact of post-GFC regulation has manifested in the form of constrained public market balance sheets and a decline in the ability of public markets to provide tailored and long-dated financing solutions. The preference for patient, customized capital solutions in this environment is evident in the growth of available private credit and private equity, as well as the increasing number of companies opting to stay private (in Australia and abroad).

2.3. The growing availability of private capital, not occurring in isolation but rather supporting broader public and private market trends, has met various needs across the real economy. In effect, this funding model provides diversity in access to credit while enhancing financial stability. In the U.S., businesses and consumers are no longer dependent on a single source of funding, with 68% of non-financial business lending provided by non-banks (see, for example, the $11B financing solution for Intel as further discussed in paragraph 2.8 below).[14] The depth of the U.S. private credit market allows a wide array of borrowers to access financing. Much of this credit is funded by the investor marketplace – insurers, mutual funds, institutional investors and the like, many of whom have long-dated funding that is well suited to long-dated financing needs.

2.4. This shift ultimately creates an effective partnership with, and lends support to, the banking system, as evidenced by a growing number of complementary partnerships between asset managers and banks. For example, the partnership between Apollo and Citibank in the U.S. direct lending market involves leveraging the respective strengths of banks and private credit firms. The program joins Citi's expansive banking client reach, origination, and capital markets expertise with Apollo's scaled, extensive capital base. Apollo retains approval over credit underwriting and provision – so it underwrites what its model is designed for, the credit asset. Citi is able to expand its customer services by providing clients access to private markets solutions.

2.5. Australia is weighted toward bank credit provision on a relative basis, with 23% of non-financial business lending provided by non-banks (see **Exhibit 4** below).[15] This, in our view, provides an opportunity to expand the availability of financing options for businesses or projects at various stages of development and maturity. Over the last few years, the private credit market has grown significantly,[16] including by way of several new listings on the ASX,[17] reflecting increased investor interest in this asset class.

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[12] Such changes include modifications to bank and other capital regulations; increased financial stability monitoring and oversight; and revision to insurer capital requirements

[13] As reflected in the Federal Reserve Balance Sheet as of May 2022 (Link)

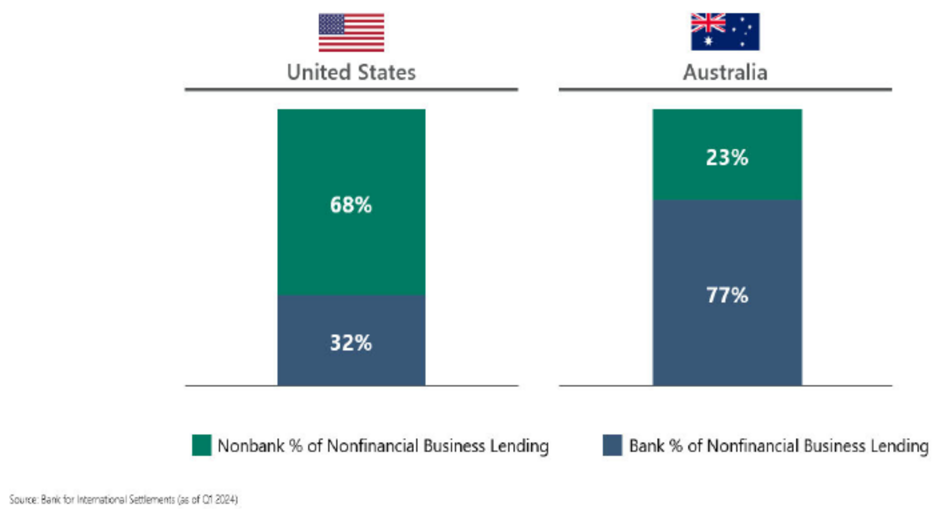
[14] Source: Bank for International Settlements (as of Q1 2024)

[15] *ibid*

[16] Source: Reserve Bank of Australia, "Growth in Global Private Credit", October 17, 2024 (Link)

[17] Source: AXIS, "Private debt boom reaches the ASX," January 24, 2025 (Link)

Exhibit 4: Sources of Credit – U.S. and Australia



2.6. From the perspective of a governmental, corporate or asset-backed borrower, private markets allow for tailored capital structures that can accommodate unique borrower needs – a feature not typically present in public markets. Private capital is a particularly powerful source of funding for long-term financings and for cash-flow based repayment structures. For example, long-term infrastructure projects, which may have very long-term repayment schedules and unpredictable, but nonetheless safe, cash flows, are more naturally financed by long-dated, private capital. Further, given that private credit lenders must organize the capital for credit provision, they tend to focus on long-term partnerships with borrowers, as compared with a shorter-term, distribution-oriented relationship sometimes seen in traditional financing markets.

2.7. From an investor's perspective, the ability to design custom capital solutions in the private markets supports the ability of investors to originate investment opportunities that offer excess return per unit of risk. Indeed, Australian superannuation funds have noted the benefits of long-dated capital or hybrid solutions that can be sourced from the private markets.[18]

2.8. Apollo's partnership with Intel is an illustrative example of the tailoring advantages offered by long-dated private capital solutions (see **Exhibit 5** below). In 2024, Apollo structured an $11B financing solution for Intel, offering 30-year capital tailored to the company's specific needs. This long-term solution provides Intel with the ability to plan and execute its long-term strategic initiatives. This transaction also serves to address a common misperception - that private credit is more suitable for early-stage or risky lending opportunities where bank financing is less likely to be available.

[18] See, for example, quote from AustralianSuper Head of International Investments, Damian Moloney: "Private markets give us access to companies and other investments, like infrastructure, that aren't available through listed markets. They have proven to be a great long-term investment for members" (Link)

Exhibit 5: Intel Partnership

Overview

- Intel sought financing partner for Fab 34, an Ireland-based facility that develops semiconductor wafers
- Apollo led investment to acquire minority interest, financed via IG-rated notes

Key Benefits to Intel

✓ **Maintain control of strategic assets while unlocking significant value**

✓ **Long-term insurance capital diversifies funding sources with a durable capital partner**

✓ **Timely execution at a large scale with bilaterally negotiated solution**

Convergence of public and private markets

2.9. Public markets remain an important source of capital for certain borrowers – we view private markets as a complement to public markets from the perspective of financing needs, as well as investor allocations.

2.10. That said, public and private markets have been converging in a number of ways. This convergence is taking place in both debt and equity capital markets. Particularly on the debt side, this is in part because investors and third-party rating agencies have invested significant resources in assessing and covering private credit markets.

2.11. We have also observed market supervisors and policymakers allocating resources to better understand private assets, contributing to broader normalization that we expect will contribute to further public/private convergence over time.

2.12. We are seeing the convergence of "public" and "private" play out in the following dimensions:

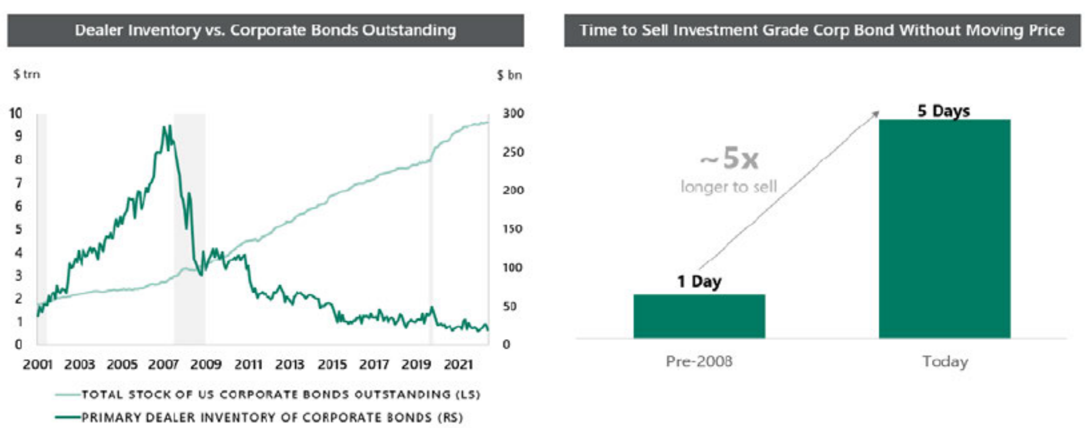
(a) **Investment-Grade Borrower Profile:** issuers in private markets are no longer merely middle-market or early-stage corporates accessing private capital. In Apollo's case, private capital is increasingly utilized by blue-chip, investment-grade borrowers (e.g., AT&T, AB InBev, Intel) that are seeking tailored financing structures, surety and speed of execution, and/or other benefits described above.[19] In total, 75%+ of Apollo's credit origination in 2024 was investment-grade;

(b) **Liquidity:** liquidity is in decline in public markets and increasing in private markets:

[19] See, for example, "How Can Private IG Enhance Fixed Income Allocations?" (Link)

- in fixed income, primary dealer inventories post-GFC have significantly reduced (by a factor of 10) while the size of the market has tripled, significantly impacting market depth[20]; the time it takes to trade an investment-grade corporate bond without moving its price is now ~5 days (vs. 1 day pre-GFC), and a sizeable share of trading activity now takes place via ETFs and portfolio trading, masking the relative illiquidity of single-name public bonds (see **Exhibit 6** below);[21]
- equity markets have been similarly impacted. As noted above, there are significantly fewer public companies, impacting overall trading liquidity in public markets. Moreover, the increase in ETFs and index funds means that much of the trading activity is driven by passive index holdings (as indicated by significant trades at the time of index rebalancing). The significant levels of volatility recently experienced also contributes to reduced liquidity as buyers and sellers face heightened risks;[22]
- conversely, private markets are seeing growing liquidity. Instruments such as CLOs[23] that are 144A exempt from U.S. securities registration (and are therefore "private") are becoming increasingly liquid, with bid-ask spreads tightening and annualised turnover increasing.[24] Liquidity in traditional private placements has also improved well beyond traditionally perceived levels and projects to continue improving in the coming years via secondary trading and new products (e.g., ETFs);
- in private equity, the continued growth of secondary deals and use of private market exchanges speaks to improving liquidity options;[25]

Exhibit 6: Public Market Liquidity is Declining



Sources: Bloomberg, Apollo Chief Economist; Dr. Botao Wu, Increasing Corporate Bond Liquidity Premium and Post-Crisis Regulations (October 2021)

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[20] Source: Bloomberg, Apollo Chief Economist
[21] Source: Dr. Botao Wu, Increasing Corporate Bond Liquidity Premium and Post-Crisis Regulations (October 2021)
[22] Source: Reserve Bank of Australia (Link)
[23] Collateralised Loan Obligations
[24] Source: Barclays, TRACE
[25] See, for example, J.P Morgan Report on Secondaries (Link); Nasdaq Private Market (Link)

(c) **Valuation / Transparency:** from a global perspective, the convergence trend is leading to more "observable" pricing for private assets as more sophisticated issuers and investors participate and even trade in the market. Furthermore, as the market develops and more holders of the same assets (or asset classes) emerge, the increase in market depth and breadth will add to price discovery and transparency such that private markets will function even more efficiently; and

(d) **Risk Assessment**: as the above trends continue, we believe that private credit (in particular of investment-grade quality) will be assessed from a risk standpoint very similarly to public credit over time.

2.13. The convergence of public and private markets has created opportunities for new and innovative investment products around the globe, such as (in the U.S.) ETFs or interval funds registered with the SEC that offer private market access. Similarly, HKEX has taken steps to allow a broader range of ETFs – including those with exposure to less liquid and private assets – to be traded on the exchange.

2.14. We expect the mobilization of private capital and investment-grade private credit to play an increasingly important role in Australia and across the globe, particularly in the context of (i) retirement needs, where there is currently a $100T+ global retirement savings gap ($1T+ in Australia alone), and (ii) the global industrial renaissance, which we expect to drive demand for $75T+ of financing globally over the next 10 Years (see **Exhibit 7** below).[26]

Exhibit 7: Global Industrial Renaissance

1. Reflects expected aggregate investment / capex into the sub-sector over the next 10 years, IEA, BNEF, Apollo Analyst estimates, 2024-2034. 2. Reflects expected aggregate capex into the sub-sector over the next decade, International Energy Agency, BNEF, Apollo Analyst estimates. 3. Reflects projected capital need for building critical data, telecommunications, cloud computing, and other digital infrastructure through 2035, International Data Corporation, Gartner, Global Mobile Suppliers Association, Apollo Analyst estimates.

[26] Source: Swiss Re, "A Retirement Lifeline" (October 2023) (Link)

<u>Future areas for regulatory focus</u>

2.15. Providers of private capital differ from other lenders along several important dimensions:

(a) **Stable and Long-Dated Liabilities:** private capital is typically provided by investors with access to stable, long-dated funding and without significant maturity transformation (see **Exhibit 8** below);[27]

As an example, Athene's insurance policies have an eight-year weighted-average life (**WAL**) overall, with some policies in the portfolio being very long term (e.g., 20+ years). Given the presence of its stable, long term funding base, Athene is then able to provide long-term financing to borrowers. Athene recently extended long-term, investment-grade financing to a U.S. electric and natural gas delivery company, with the proceeds earmarked for long term investments in its renewables and natural gas businesses;

(b) **Focus on Financing Relationship:** private capital lenders tend to be narrowly focused on the lending relationship (i.e., what is being financed) rather than acquiring customers to provide a wider array of services (e.g., advisory, cash management, hedging). This results in rigorous underwriting and long-term relationships with borrowers (vs. an "originate to distribute" model).

As noted earlier, this difference in focus has manifested in a number of complementary partnerships between asset managers and banks whereby banks help to source financing opportunities and asset managers provide the capital, allowing banks to service their customers in a balance sheet-light manner better reflective of their liabilities; and

(c) **Diverse Capital Pools:** private capital lenders are likely to be able to draw from diverse capital pools reflecting different risk appetites and investment horizons, supporting more tailored outcomes for borrowers than those offered by traditional financing markets.

Exhibit 8: Long-Term Investors Are Natural Providers of Long-Dated Financing

[27] To this end, we are supportive of APRA's proposed consultation (Link) on potential changes to the illiquidity premium used to discount Australian life insurer liabilities. In our view, should the changes be implemented by APRA, there may be greater market support for long-dated savings products that would both help to close Australia's retirement savings gap and enable further long-dated insurer investment in Australia's real economy.

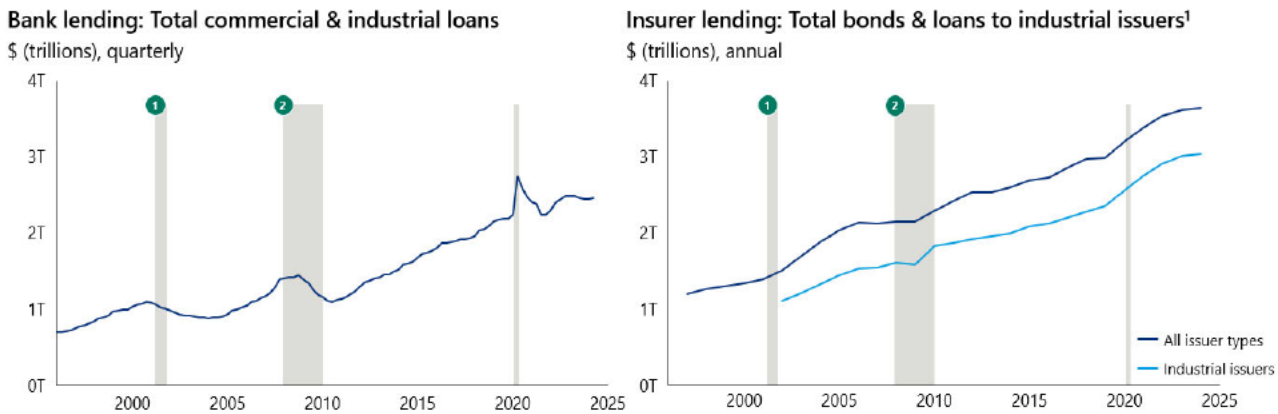
2.16. The above differences drive several benefits:

(a) **Financial Stability from Diverse Sources of Credit:** the use of private capital can enhance financial stability by diversifying the sources of credit in an economy, thereby reducing systemic reliance on traditional lending sources;[28]

(b) **Countercyclical Credit Provision:** private capital providers often offer countercyclical credit, meaning they provide funding during economic downturns (see **Exhibit 9** below)[29] and

(c) **Innovation:** the ability to provide a greater variety of tailored capital solutions supports sector innovation and continued competition in financial markets, to the benefit of borrowers and investors (e.g., the Intel example noted above).

Exhibit 9: Long-Dated Investors Like Insurers are Countercyclical Providers of Credit



Lending growth during periods of economic stress

	1 **DotCom crisis** (1/1/2001-1/1/2002)	2 **GFC** (1/1/2008-1/1/2010)
Banks	(8.5%)	(17.4%)
Insurers	12.3%	13.6%

Notes: Shaded areas indicate economic recessions. 1. Total bonds & loans to industrial insurers includes Industrial Bonds, Hybrid Securities, Credit Tenant Loans, SVO Identified Funds, Bank Loans, Unaffiliated Bank Loans, and Unaffiliated Certificates of Deposit: Bonds.
Source: Federal Reserve Economic Date, S&P Capital IQ

B. Public equity markets

2.17. We view public markets as positive funding diversification in well-functioning capital markets. Private markets exist because the real economy is largely private, with 6M+ private firms in the U.S. alone.[30]

2.18. While public markets allow for diversification from private markets, we consider that public markets could address certain challenges to ensure they remain competitive and appealing to entities

[28] See, for example: "Reassessing Systemic Risk in Nonbank Financial Institutions" (Link)
[29] See Coppola, "In Safe Hands: The Financial and Real Impact of Investor Composition Over the Credit Cycle"; Chodorow-Reich, Ghent, Haddad, "Asset Insulators"
[30] Source: S&P Capital IQ

seeking to raise capital. By comparison, private markets offer certain advantages relative to the challenges that public markets face. In particular:

(a) **Tailored governance:** Private companies can tailor their governance structures such that executive energy can focus on the specific value creators and risks of the business. This can be more difficult for public companies where prescribed governance expectations of the listed exchange may require the company and its board to address governance topics which may not reflect the actual risks and value drivers of the business. The prescriptive nature of public governance expectations requires significant time and attention, which may be disproportionate to the risks intended to be addressed. For example, in a founder-led growth company, the need for an independent board may not be as compelling.

(b) **Greater availability of capital:** As noted in paragraph 2.10 above, there is growing availability of private capital that businesses can access, and increasing focus and investment by ratings agencies has played a key role in facilitating capital flows into private companies.

(c) **Shareholder alignment:** Private companies generally have fewer and often industry-specific shareholders. This enables, for example, more tailored remuneration structures directly aligned to customer, community, and shareholder outcomes. In public markets, proxy advisors and minority shareholders can and do act against tailored structures, causing considerable brand and reputation risk to companies.

(d) **Reputation:** Private companies can be more purposeful with stakeholder communication. The board and management can limit their exposure to the media, thereby limiting distraction that can arise from media commentary and allocate greater focus on the company's longer-term interests.

(e) **Innovation:** As noted in paragraph 2.6 above, the greater variety of tailored solutions offered by private capital supports borrower-specific needs. As alluded above, this in turn allows companies to better focus on their long-term objectives.

C. Private markets - risks and regulatory approach

2.19. Australia's regulatory framework has demonstrated a level of sophistication and resilience that has successfully mitigated major global shocks. It has also overseen the growth of the superannuation system, which is a unique social and economic success compared to other global economies (and one of the largest pension systems in the world).[31] This growth has taken place in an environment of robust regulatory and prudential oversight by ASIC and the Australian Prudential Regulation Authority (**APRA**). We consider the oversight and focus of ASIC, including the Australian financial services (**AFS**) licensing regime and its application to private credit funds, is in large part consistent with other jurisdictions (e.g., the U.S.), as detailed in the Discussion Paper (page 37).

2.20. We believe differentiations among subcategories of private markets are necessary to form appropriate regulatory policies. We see distinct markets in private capital (PE, VC, wholesale funds, real estate, credit) and further distinctions within credit (hybrid, infrastructure, commercial real

[31] As of September 2024.

estate and direct lending; as well as investment-grade and non-investment-grade). Each type of private asset should be evaluated having regard to its own risk profile (enabling returns to be risk-adjusted) and finding the appropriate investor base. In addition, the varying ALM profiles of investors and investment vehicles (e.g., insurers, closed-end funds, open-ended funds, etc.) also warrant differentiation. These markets are diverse and are regulated by existing regimes that have prudently facilitated the emergence of diversified capital markets and credit provision (like those of the U.S.). Indeed, considering mutual recognition regimes in respect of the foregoing categories, to effectively allow Australia to manifest diversity at the system-level, would allow for a cost-effective way to uplift regulation to meet global standards and avoid a significant overhaul of the Australian regulatory framework (which in our view does not contain any material gaps, though we note several recommendations later in our response).

<u>Commonly cited risks of private markets</u>

2.21. Our observations on the risks flagged by ASIC – namely *(i) Opacity and unfair treatment of investors, (ii) Management of conflicts of interest, (iii) Valuation of "illiquid" assets, (iv) Vulnerabilities from leverage and (v) Investment Illiquidity* – are each discussed in turn below. We note that many of these risks are present in public markets and should be evaluated consistently without an assumption that public markets are inherently safer.

(a) **Opacity and Unfair Treatment of Investors:** When properly implemented, rigorous allocation policies mitigate opacity and unfair treatment:

- Well-managed private market participants implement rigorous allocation policies. For example, Apollo has adopted an allocation policy designed to result in allocation of investment opportunities among clients in a manner that is fair and equitable over time. In addition, Apollo has established various allocations committees that review, manage, and resolve certain allocation issues.

- One concern is how fees are presented and charged to investors. We are fully supportive of transparency in this regard. Fees should be clearly disclosed, apply to all investors in the same class equally and across different classes fairly, be at arm's length, and clearly identified as between different fees (if more than one service is performed). Finally, investment returns and performance history should be presented on a *net-of-fees* basis to provide a clear picture to investors.

(b) **Management of Conflicts of Interest:** The risks arising from potential conflicts of interest (e.g., alignment as to incentives, related-party transactions and treatment of confidential information) are capable of being managed with proper business practices, compliance frameworks, and suitable disclosures.

- Robust policies for managing conflicts of interest are an important part of any investment firm. Conflict management policies are essential to ensuring that affiliated transactions are conducted transparently and with appropriate governance. To ensure fiduciary obligations, conflict-related concepts should be woven into an investment manager's policies and procedures (e.g., Code of Ethics and policies covering principal and cross trades, expense allocations, and investment allocations).

- The need for transparency in identification and disclosure of conflicts extends to brokers or financial advisers who may be involved in the product distribution chain. Affiliated transactions, which are natural to origination, advisory, and structuring activities, can be managed through related party procedures, governance, and transparency – and should not be prohibited or restricted purely because of affiliation.

- By way of analogy, U.S. regulators such as the SEC and NAIC have taken balanced, principles-based approaches[32] to managing these conflicts by identifying and giving preference to the needs of the investor or the client.

- Finally, alternative asset managers may have third-party LPs that co-invest, sit on boards, and otherwise partner with the asset manager, which provides additional alignment and discipline to mitigate conflicts of interest.

(c) **Valuation of Illiquid Assets:** Valuation of illiquid assets is a commonly cited concern regarding private investments. Our experience and recent supervisory findings demonstrate that the area can be appropriately managed with robust governance and procedures.

- As a backdrop, many private assets, including those originated by non-banks, are distributed across multiple large, sophisticated investors. Valuation teams across these investors observe industry-wide valuation practices and marks and validate via third party valuation services. As investment-grade private credit assets become more widely held (as has been occurring over time), valuation dispersion across firms will continue to naturally decrease.

- At the firm-level, in our experience, strong valuation procedures, including requisite independence and third-party assurance, generally produce robust and reliable valuations. Private asset pricing is supported by full access to management and detailed private information – frequent and in-depth company reporting and monitoring is often required via stricter covenants. In addition, valuations are often provided or reviewed by third-party pricing services as well as reviewed by external auditors on a recurring basis. Such procedures prevent overreliance on broker quotes, which may not necessarily reflect the fundamental value, market value or depth of an asset, potentially creating "false security" for holders and policymakers.

- The FCA recently evaluated valuation practices of private market participants and highlighted general good practice in the summary of its findings:

    - *"We were encouraged to find many examples of good practice in firms' valuation processes, including the quality of reporting to investors, documenting valuations, using third-party valuation advisers to introduce additional independence and expertise, and consistent application of established valuation methodologies. Generally, firms recognized the importance of maintaining robust processes. We*

[32] Except in certain circumstances such as securitizations where prohibition may be the base case – see, for example, sec.gov/files/rules/final/2023/33-11254.pdf.

saw practices that reflected consideration of investor protections given the judgement required and risks present in valuing private assets"[33]

(d) **Vulnerabilities from Leverage:** In our view, leverage is market-driven and driven by investors' investment appetites rather than the product of a "gap" in regulatory oversight. Certain strategies involve high degrees of leverage to meet investor return hurdles; others do not. Moreover, the quality of leverage and ALM, and governance over leverage are nearly as important as the level of leverage.

- Private capital providers are generally less leveraged than banks and many rest upon a foundation of matched funding.[34] As a result, the movement of capital from bank balance sheets to private market balance sheets can generally have a de-levering effect on the broader market and thereby reduce systemic leverage.
- Leverage is a key topic in international dialogue concerning "NBFI" lending, with the FSB recently releasing a consultation that has elicited 34 responses from industry participants, many of whom point out that there are different kinds of "leverage" which vary based on specific context and business model, and that many traditional metrics, including "gross notional" exposure may not provide a reliable view from which to assess risk.[35]
- We believe that the issue of leverage requires careful consideration, and certainly requires a sector-specific and jurisdictionally tailored regulatory approach.[36]

(e) **Investment Illiquidity:** In our experience, liquidity is a manageable aspect of investment in private assets and is best approached holistically at the investor entity level, rather than anchored on an asset-level view.

- Firm and fund funding profiles should be considered in any liquidity analysis – sources of funding, stability and predictability of commitments, etc. Restricting measurement to assets alone does not provide a complete picture as to whether a firm or fund can withstand liquidity demands.
- In addition, liquidity can be approached under a multi-asset, multi-liquidity-source view and at the entity level, such that not every asset in a fund's portfolio needs to be equally liquid to fulfill entity-level liquidity needs. For example, the use of a "liquidity sleeve" of more liquid assets like treasuries alongside a larger sleeve of private assets. Such methods offer a pathway to achieve reliable transactional daily NAVs for funds with significant investments in private assets.
    - We also note that the valuation for "private" investments is not necessarily static. As public and private markets converge, private assets are priced with increasing frequency due to improving private market liquidity, expanded use of technology,

[33] Source: FCA, "Private Market Valuation Practices" (Link)
[34] See, for example: "Reassessing Systemic Risk in Nonbank Financial Institutions" (Link)
[35] Source: FSB, "Public responses to consultation on Leverage in Non-Bank Financial Intermediation" (Link)
[36] See, for example, responses to Recommendation 8 in the FSB consultation on NBFI leverage from the ACLI (Link), MFA (Link), and AIMA (Link), which underscore the differences in leverage use across different industries and firms.

availability of quotes and other levers. For example, certain Apollo products that include private assets are already priced daily.

Incentives as a tool for risk management

2.22. The alignment of the interests of fund managers and investors is crucial to reduce potential conflicts of interest and enhance overall investment integrity (and consequently market integrity). In our experience, incentives in private markets are structurally well-aligned.

(a) **Private Funds:** Private funds typically have fee structures that are based on performance. This means that fund managers are incentivized to achieve returns for their investors, as compensation is directly tied to the fund's performance. This performance-based structure aligns the interests of fund managers with those of investors, encouraging prudent investment decisions and diligent management of assets.

(b) **Retail Products:** Products in private markets should be subject to appropriate allocation policies to ensure that investments are made in accordance with the fund's objectives. These policies can help mitigate risks by ensuring that investments are properly vetted and meet specific criteria before being included in the fund's portfolio rather than resulting from opportunities that maximise financial incentives.

(c) **Origination:** Private market participants often employ an "originate to hold" model, where a sizeable share of loans is held, rather than distributed. That is a key differentiator for firms like Apollo vs. the "originate to distribute" model. This approach ensures that originators are fully committed to the quality of the credit they source.

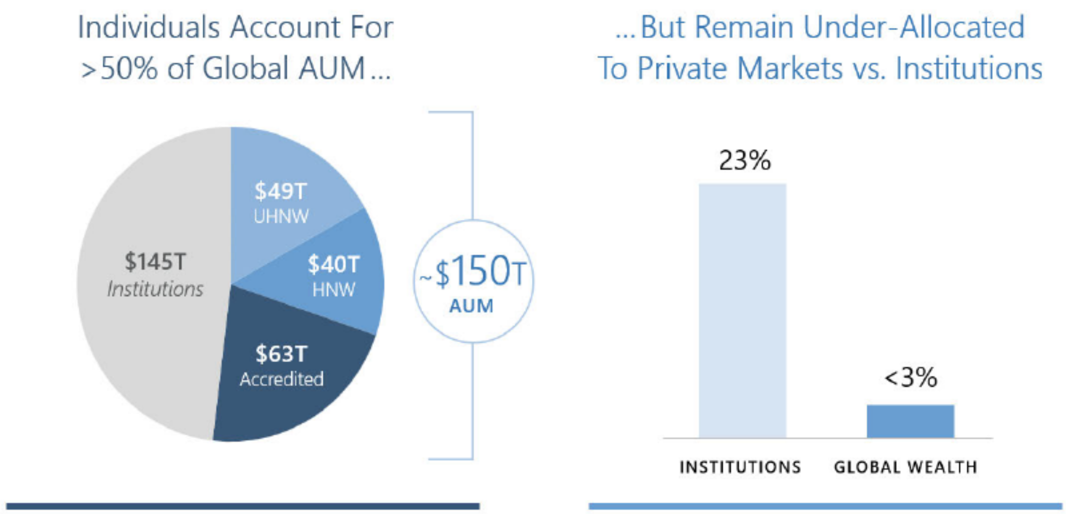
D. Retail investor participation in private markets

Current and future exposure of retail investors to private markets

2.23. Globally, retail investors account for more than 50% of AUM yet have significantly lower investment allocations to private markets compared to institutional investors. Institutions have around 23% of their portfolios invested in private assets, whereas global individual wealth allocated to private markets is less than 3% (see **Exhibit 10** below).[37]

[37] Source: Bain Global Private Equity Report 2023, Altrata World Ultra Wealth Report 2024, Fidelity.

Exhibit 10: Individuals Are Under-Allocated to Private Markets vs. Institutions



Sources: Bain Global Private Equity Report 2023, Altrata World Ultra Wealth Report 2024, Fidelity.

2.24. Australian retail investors are similarly concentrated in public markets as outlined above, noting that most financial advisers have a combination of both wholesale and retail clients. This gap highlights the potential for increased retail investment in private markets as investors seek better diversification and incremental returns.

2.25. We support expanded investor access to private credit, understanding that the degree to which investors are exposed to private credit, the vehicles through which they invest, and the types of assets they hold may differ based on segment (i.e., UHNW, HNW/Mass Affluent, and Retail). In particular, retail access to private credit should be accompanied by appropriate fiduciary oversight and transparent disclosure of fees, investment approach, and risks (See **Exhibit 11** below).

Exhibit 11: Indicative View of Suitable Products and Liquidity Profiles for Investors

Dimension	Investor Profile		
	Retail	**Mass Affluent / High Net Worth (HNW)**	**Ultra High Net Worth (UHNW)**
Suitable Private Market Asset Classes	• Private Credit • Real Assets • Unlevered Equity	• Private Credit • Real Assets • Unlevered Equity	• Private Credit • Real Assets • Unlevered Equity • Levered Equity • Venture Capital • Hedge Funds • Single-Name Private
Suitable Liquidity	• Up to Daily **Example vehicle:** Up to 15% private assets + 85% public assets	• Quarterly **Example vehicle:** 80% private assets + 20% public assets in vehicle that offers quarterly liquidity up to 5% of assets	• Quarterly or Term

- Different investor profiles warrant tailored products and oversight
- Professional management can help address risks

<u>Benefits / risks of retail investor participation in private markets</u>

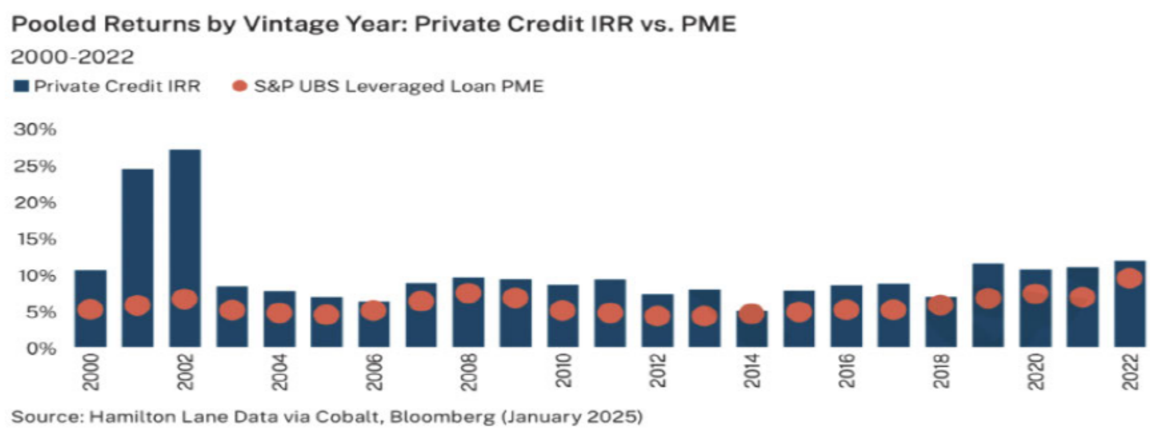
2.26. Retail participation in private markets has a number of benefits. In no particular order, we consider the key benefits are:

(a) **Diversification:** As noted above, private markets provide retail investors with the opportunity to diversify their portfolios considering the increasing concentration of public markets;

(b) **Yield (incremental and safe yield):** Private markets often offer incremental and safe yields compared to equivalent public market investments (see **Exhibit 12** below, for example). This incremental yield can be particularly beneficial for long-term investment vehicles like retirement funds. A "net of fee" return approach is critical (rather than a "lowest fee" approach) in that these areas are often resource intensive to invest in, and lower fees often do not create the optimal net of fee return for the investor; and

(c) **Capital to Fund Long-Dated Real Economy Investment:** Retail investor participation in private markets can channel more private capital into long-dated real economy investments. This is increasingly important in the context of the previously mentioned global industrial renaissance, where substantial funding is required for infrastructure, technology, and other critical sectors, which in our view are better served by the private markets deploying patient capital rather than volatility-prone public markets.

Exhibit 12: Private Credit can Offer Higher Returns vs. Public Market Equivalents



2.27. Of course, as with public markets, retail participation in private markets presents certain risk considerations. In our view, the key risks are:

(a) **Product and Market Education:** one of the primary risks associated with retail investor participation in private markets is the need for a sufficient understanding of product offerings and associated risks. Such risks are best mitigated by:

- appropriate disclosures, as robust disclosures are required by investor and fiduciary needs, as well as local regulations. In Australia, Product Disclosure Statements (**PDS**) provide comprehensive disclosures that address liquidity, fees, strategy, structure of the product, risks and general tax positions;

- access to full diligence. Product teams should ensure sufficient information is made available to distributors, investors and professional advisors for informed decision-making. The decision to onboard, distribute, or invest lies with the gatekeepers of these organizations who have dedicated teams to diligence funds; and

- training and educational material to better educate advisors on private market investments;

(b) Liquidity Needs: retail investors may have varied liquidity needs. As noted above, tailored liquidity structures, including closed-end, interval, and semi-liquid vehicles, may accommodate such needs. We also note that daily liquid vehicles frequently used in public markets should not be assumed to be without risk; for example, the availability of broker quotes for assets held by these vehicles are not necessarily indicative of the depth of the relevant market or the volatility of such market should a stress arise, which may lead to effective investor over-reliance on such vehicles;

(c) Fair Allocation: appropriate allocation policies are necessary to ensure retail products receive access to suitable investments over time. These risks can be further mitigated through fee-alignment; and

(d) **Other Risks:** please refer to the discussion under Section C above *("Private markets - risks and regulatory approach")*.

Adequacy of the current legal framework for the protection of retail investors assets

2.28. Australia's financial services laws provide a robust framework for protecting retail investors investing in private assets. Financial services licensees are required to act efficiently, honestly, and fairly, ensuring proper management of customer assets and compliance with net tangible asset reporting requirements. ASIC monitors compliance through licensee reporting, thematic surveillance, and enforcement actions. In addition, the recently introduced suite of Design and Distribution Obligations (**DDO**) mandates that financial products be designed to meet the needs of identified target markets and distributed appropriately, with the aim of preventing mis-selling and to ensure suitability for retail investors.

2.29. Furthermore, PDS disclosure obligations for retail investment means that retail investors have access to clear and transparent information about risks, fees, and product features in a single document. With respect to superannuation, trustees have fiduciary duties imposed by law to act in the best interests of their members, including conducting due diligence on investments and ensuring appropriate risk management policies and strategies are in place, and avoiding conflicts of interest.

E. Transparency and monitoring of the financial system

Transparency and Reporting

2.30. Transparency is a critical component of well-functioning financial markets. Transparency ensures that both investors and regulators have the necessary information to make informed decisions and maintain market integrity. We consider that, in this regard, transparency has two aspects:

(a) **Investors need to understand the risks associated with their investments:** clear and comprehensive information about the risks, fees, liquidity availability (including contractual gates), and performance of investments allows investors to make informed decisions and manage their portfolios effectively; and

(b) **Regulators need to understand the businesses that they regulate:** accurate and timely information about the operations, governance, and financial health of businesses enables regulators to identify potential risks, enforce compliance, and protect the interests of investors and the broader financial system.

2.31. Our experience is that investors already require significant transparency from managers. Many private market funds generally have comprehensive reporting, providing investors with regular updates on fund performance, asset valuations, and risk exposures.

2.32. Similarly, in the Australian market, Apollo considers that reporting requirements applicable to Australian asset managers and insurers are quite rigorous, requiring detailed disclosures on financial performance, governance arrangements, and risk management practices. These requirements seek to enable transparent operation and high standards of integrity.

2.33. We highlight the reporting requirements of U.S. regulatory regimes as examples of transparent, fit-for-purpose reporting, noting that there is considerable information reported by U.S. market participants and that much of that information is public. [38] For example:

- many private assets sit on bank and insurer balance sheets and are regularly reported to regulators based on local requirements;
- insurers, BDCs and public funds disclose position-level data on a recurring basis; and
- asset managers must disclose detailed information to applicable regulators (e.g., to the SEC via Form PF, which is ultimately made public at an aggregate level).

2.34. In particular, the U.S. statutory reporting regime for insurers requires granular, position-level reporting at the individual asset level. Athene's annual statutory statement is 7,500+ pages long.[39]

2.35. We acknowledge that data and reporting requirements vary across jurisdictions, both with respect to specific fields and reporting format. We are supportive of analyses that seek to consolidate and reconcile reporting across different regimes with the goal of identifying areas where additional information is potentially required for effective monitoring.

- We believe it is important to recognize that mere "data dumps," extensive disclosures, and analysis performed in isolation do not necessarily equate to "transparency." For instance, despite the stringent reporting requirements for banks in the United States, the collapse of Silicon Valley Bank and resulting contagion highlighted that transparency alone is not sufficient to prevent market failures – extensive engagement with industry and detailed analysis of existing disclosures to identify and address specific questions can have a material impact.

F. Concluding remarks and recommendations

2.36. In summary, we offer the following recommendations with respect to private markets regulation:

Dimension	Recommendations
Data and Transparency	• A supervisory exercise to consolidate and reconcile reporting across global financial sector regimes and jurisdictions would help address open questions while also identifying specific areas where additional reporting or industry engagement may be helpful
Risk Spectrum	• Regulation should be tailored to the specific risks of individual asset classes comprising "private markets" (rather than "broad brush"). A significant percentage of private assets is investment-grade credit, which differs substantially from PE/VC/Hedge Fund exposure (for example). Investments with higher return volatility or illiquidity may require more active monitoring and deeper risk assessment

[38] See, for example, the MFA's Paper "Private Credit Data: Readily Available and Fit for Purpose" (Link)

[39] Source: Athene's 2024 Annual Statutory Statement (Link)

Dimension	Recommendations
Leverage	• The issue of leverage requires a sector-specific / differentiated regulatory approach • From a micro-prudential perspective, we would highlight as focus areas leverage structures that entail: (i) significant MTM collateral requirements, (ii) roll-over risk, or (iii) very high levels in total (e.g., certain hedge fund strategies)
Interconnections	• Examination should focus on industries where existing regulatory regimes produce heavy incentives for interconnections. For example, regimes that incent the use of derivatives to manage ALM and/or credit risk
Retail Access to Private Markets	• The degree to which investors are exposed to private credit, the vehicles through which they invest, and the types of assets they hold should differ based on segment (i.e., UHNW, HNW/Mass Affluent, and Retail) • In particular, retail access to private credit should be accompanied by appropriate fiduciary oversight and transparent disclosure of fees, investment approach, and risks

2.37. As a longstanding participant in the Australian market with aspirations to continue playing a large role in investing in the Australian economy, Apollo welcomes the opportunity to further engage on these matters as an individual company and collectively as an industry.

Annexure A – Responses to Discussion Paper questions

Developments in global capital markets and their significance for Australia

1. **What key impacts have global market developments had on Australian capital markets? What key impacts do you anticipate in the future? Please provide examples from your experience.**

   Please refer to paragraph 2.1 above. Global market developments have led to the growing importance of private markets. In the future, we anticipate that the growing availability of private capital will continue to support diverse financing needs while enhancing financial stability.

2. **Do you have any additional insights into the attraction of private markets as an issuer or an investor?**

   Please refer to paragraph 2.6 above. Private markets allow for tailored capital structures that can accommodate unique borrower needs. This is particularly beneficial for long-term financings and cash-flow based repayment structures, making private markets an attractive option for issuers and investors alike.

3. **In what ways are public and private markets likely to converge?**

   Please refer to paragraph 2.10 above. Public and private markets are converging in several ways, including in relation to the investment-grade profile of borrowers/assets, liquidity, valuation transparency, and risk assessment. This convergence is driven by the increasing participation of issuers and investors in private markets, leading to more observable pricing and improved liquidity.

4. **What developments in public or private markets require regulatory focus in Australia in the future?**

   Please refer to paragraphs 2.15 to 2.18 above. Regulatory focus should consider those areas where providers of private capital differ from providers of public capital in terms of stable and long-dated liabilities, focus on financing relationships, and diverse capital pools.

Healthy public equity markets

5. **What would make public markets in Australia more attractive to entities seeking to raise capital or access liquidity for investors while maintaining appropriate investor protections?**

   Please refer to paragraphs 2.17 and 2.18 above. We consider that public markets (relative to private markets) could address certain challenges to ensure they remain competitive and appealing to entities seeking to raise capital.

6. **Do you agree that a sustained decline in the number, size or sectoral spread of listed entities would negatively impact the Australian economy? If so, can you suggest ways to mitigate any adverse effects that may arise from such changes?**

   Please refer to paragraphs 2.3 to 2.8 above. As noted above, growing availability of private capital, not occurring in isolation but rather supporting broader public and private market trends, has met various needs across the real economy. The impact is, in our view, not negative.

7. **To what extent is any greater expectations of public companies, compared to private companies, the result of Australian regulatory settings or the product of public scrutiny and community expectations of these companies?**

   Public companies have different expectations placed on them vis-à-vis private companies due to the combination of each of the below factors:

   (a) **Australian regulatory settings –** particularly through prescriptive disclosure and reporting obligations;

   (b) **public scrutiny and community expectations –** public companies tend to attract more media coverage than private companies, leading to greater public scrutiny of their actions and decisions. At the shareholder level, the dispersion of holdings across a large group of shareholders means that the company's board and management may find optimal shareholder alignment difficult to achieve. Furthermore, proxy advisers exercise a degree of influence that is often disproportionate to the level of their investment in the company;

<u>Private market risks and market efficiency and confidence</u>

8. **Are Australian regulatory settings and oversight fit for purpose to support efficient capital raising and confidence in private markets? If not, what could be improved?**

   Please refer to paragraphs 2.19 and 2.20 above. Australian regulatory settings and oversight are fit for purpose and have successfully mitigated major global shocks and overseen the growth of the superannuation system. Differentiating among subcategories of private markets and considering mutual recognition regimes, particularly with the U.S., could further enhance the effectiveness of Australia's regulatory framework.

9. **Have we identified the key risks for investors from private markets? Which issues and risks should ASIC focus on as a priority? Please explain your views.**

   Please refer to paragraph 2.21 above. We agree that ASIC has identified the commonly cited risks for investors in private markets. In our view, ASIC should focus on consolidating and reconciling available data and reporting from private market participants as a key first step.

10. **What role do incentives play in risks, how are these managed in practice by private market participants and are regulatory settings and current practices appropriate?**

Please refer to paragraph 2.22 above. Incentives play a crucial role in aligning the interests of fund managers and investors. Performance-based fee structures and appropriate allocation policies ensure that fund managers are incentivized to achieve returns for their investors, thereby reducing potential conflicts of interest and enhancing overall investment integrity.

Retail investor participation in private markets

11. What is the size of current and likely future exposures of retail investors to private markets?

Please refer to paragraphs 2.23 to 2.25 above. Retail investors currently have significantly lower exposure to private markets than institutional investors. However, as investors seek better diversification and incremental risk-adjusted returns, we anticipate increased retail investment in private markets in the future.

12. What additional benefits and risks arise from retail investor participation in private markets?

Please refer to paragraphs 2.26 and 2.27 above.

13. Do current financial services laws provide sufficient protections for retail investors investing in private assets (for example, general licensee obligations, design and distribution obligations, disclosure obligations, prohibitions against misleading or deceptive conduct, and superannuation trustee obligations)?

Please refer to paragraphs 2.28 and 2.29 above. Australia's financial services laws provide a robust framework for protecting retail investors, including general licensee obligations, design and distribution obligations, and disclosure obligations. These laws ensure proper management of customer assets and compliance with reporting requirements.

Transparency and monitoring of the financial system

14. What additional transparency measures relating to any aspect of public or private markets would be desirable to support market integrity and better inform investors and/or regulators?

Please refer to paragraphs 2.30 to 2.35 above. The existing regulatory framework fosters a high degree of transparency in the Australian market, as reporting requirements for asset managers and insurers are quite rigorous, requiring detailed disclosures on financial performance, governance arrangements, and risk management practices.

15. In the absence of greater transparency, what other tools are available to support market integrity and the fair treatment of investors in private markets?

Please refer to the table set out in paragraph 2.36. We note our comments above that the existing regulatory framework fosters a high degree of transparency, and it may be that consolidating and reconciling the information already available would prove a helpful starting point.