WILMERHALE

MEMORANDUM

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To Apollo Global Management, Inc.

From Jamie S. Gorelick

Re **Reputational Risk Management and Corporate Citizenship Processes**

This memorandum responds to your request for a review of Apollo Global Management's ("Apollo's") approach to reputational risk management and corporate citizenship. These separate, but related, functions have become increasingly important in the alternative investment management industry, particularly in recent years. In that time, the scale and complexity of Apollo's operations have also grown substantially, increasing demands on the company's risk management infrastructure. Apollo has also recently received questions from limited partners ("LPs") in the funds it manages regarding the adequacy of Apollo's processes to avoid potential threats to its reputation. In light of these developments, you have asked us to conduct an accelerated review of Apollo's corporate functions for reputational risk management and corporate citizenship and to recommend steps that Apollo could take to further strengthen them.

These functions serve distinct purposes. Reputational risk management is concerned with mitigating the potential harm to an organization arising from negative perceptions of it. Corporate citizenship, in contrast, refers to the practices and initiatives that an organization employs to positively impact society. While motivated by separate purposes, the efficacy of these functions is linked: poor corporate citizenship can create reputational risk, and a negative reputation can impair a company's ability to positively impact society.

As detailed below, we find that Apollo has taken major steps, particularly in recent years, to put resources and processes in place to identify, avoid, and mitigate reputational risks and to promote good corporate citizenship practices. These initiatives have enhanced Apollo's broader, long-standing infrastructure for managing an array of risks that can create reputational concerns. Although detailed information about the relevant practices of other alternative investment managers is not publicly available, Apollo's processes appear to be aligned with, and in some cases leading, industry standards.

At the same time, we have identified areas for further improvement. That should come as no surprise, as alternative investment managers find themselves addressing complex reputational risks. The industry often takes control positions in companies with significant challenges, and makes investments that carry a high degree of difficulty and complexity. The industry has also come to play a larger role in the economy, both with respect to the amount of capital it manages and the breadth of its investments, which has brought additional scrutiny. Many firms are also led by founders and other senior executives with their own public profiles and outside business pursuits. Institutional investors are also increasingly focused on reputational concerns and the social consequences of their investments. Apollo has responded to these dynamics by expanding resources and enhancing its processes for reputational risk management and corporate citizenship. As these functions evolve and mature, it will be important to continue Apollo's investment in them and to assess their performance objectively. As discussed below, we also recommend that Apollo take additional actions to address reputational risks associated with its funds' existing investments and the outside business activities of its executives.

In this memorandum, we first provide an executive summary of our findings and recommendations. *Infra* 2-5. We then summarize the process underlying our review and relevant background information, including industry best practices. *Infra* 5-9. We then describe both Apollo's processes to identify and manage reputational risk directly, and procedures that reduce reputational risks arising from the firm's operations and investments. *Infra* 9-16. We then provide an overview of Apollo's initiatives for promoting corporate citizenship. *Infra* 16-21. Finally, we discuss our assessment of, and recommendations for further enhancing, Apollo's approach to reputational risk management and corporate citizenship. *Infra* 21-24.

EXECUTIVE SUMMARY

The purpose of this review is to describe and assess the framework Apollo has established pertaining to reputational risk management and corporate citizenship, and to make recommendations for improvement. We have not assessed the implementation of Apollo's processes in specific circumstances, nor have we undertaken to advise on the content of every policy or procedure. We also have not attempted to catalogue every risk management practice used by Apollo. Instead, we focus on the threshold question of the adequacy and appropriateness of the infrastructure Apollo has put in place, as an organization, related to reputational risk management and corporate citizenship. Before addressing those questions, we briefly define these concepts in turn.

Reputational risk is the risk arising from the adverse perception of an institution among audiences that can affect its success.[1] For Apollo, these audiences include LPs, counterparties, business partners, employees, regulators, policymakers, and the media. Reputational risk is often considered a secondary consequence of other, underlying risks, such as compliance, security issues, or controversial business decisions. But it can also arise independently. An ineffective response to a factually unsupported attack can damage a firm's reputation. Reputational risk can thus be managed by (1) mitigating and addressing underlying risks that can generate negative attention; (2) identifying and assessing the reputational dimension of business decisions; and (3) building capacity to address reputational threats, whatever their basis, and to advance Apollo's reputation through active engagement.

Corporate citizenship refers to the practices and initiatives that an organization employs to positively impact society. Being a good corporate citizen requires that an enterprise have a strong set of values, embodied in a code of conduct that actually governs how it works. And it requires a set of goals for constructive relationships with employees, communities, and businesses partners.

Corporate citizenship has been defined as "a company's ability to do social good and account for its actions—both externally, among customers, communities, and society; and internally, among employees and corporate stakeholders."[2] These efforts can also involve philanthropy, community service, impact investing, and the promotion of diversity and inclusion within the institution.

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The last three decades have been transformative for Apollo and many of its peers. Since its founding in 1990, Apollo has grown steadily—but over the last decade, its growth has been extraordinary. Apollo has witnessed an aggregate 20% compound annual growth in its assets under management ("AUM") across a broad range of investment platforms and has tripled its workforce in the last decade alone. This growth in scale and complexity has been accompanied by a shifting environment. As the alternative asset management industry has matured, it now faces significantly greater regulation, media attention, and political scrutiny. LPs have also become more sensitive to reputational concerns and how their investments affect society. These developments have made reputational risk management by alternative investment managers both more challenging and more essential, and have increased the salience of corporate citizenship.

As Apollo has grown and as the external environment has changed, the company has taken numerous steps to institutionalize risk management, generally. Long-tenured firm officers conveyed that Apollo has consistently had a strong ethical culture and an aversion to legal and regulatory risk. But as an organization scales, it becomes harder to rely on shared norms and understandings to manage risk effectively. With respect to reputational risk, over the last three years, Apollo has taken important steps to institutionalize and enhance its identification and management of this category of risk. Broadly speaking, Apollo has instituted policies and processes, hired skilled personnel, gathered relevant data, and retained external resources. We discuss the key steps it has taken below. (Exhibit A is a timeline of events.)

One of the most significant developments is the creation of a cross-functional reputational risk committee. That committee is charged with reviewing potential investments for reputational risk, educating investment professionals about reputational risk, and assessing emerging issues. Apollo has bolstered the committee's work by retaining external, specialized resources to review reputational risks associated with potential investments from a legal, regulatory, and political perspective. Apollo also recently established a dedicated leadership position, Head of Enterprise Risk Management ("ERM") and Trade Operations, to build a more robust ERM function based on actionable risk-based data and an integrated framework of formal structures and processes that seek to identify and mitigate risk, including reputational risk.

Apollo has also added resources to bolster its capacity to identify, avoid, and address reputational risks. After years of relying on consultants or employees without a background in public relations, Apollo recently established a dedicated Corporate Communications department, hiring experienced public relations personnel to address media inquiries and engage with journalists. Apollo has also expanded and institutionalized its Government Relations function, devoting additional resources to tracking public policy issues, building relationships with policymakers, and hiring experienced political figures as corporate advisors to guide the company on key issues.

As importantly, Apollo has also institutionalized and sought to improve its processes to address an array of underlying risks that can have reputational dimensions. These include both risks that arise from Apollo's operations and those that can arise from the investments made by funds under its management. On the operational side, Apollo has established procedures to identify and avoid compliance risks, business partner risks, and workforce risks, such as calibrated vetting of employees and firms associated with the company. With respect to potential investments, Apollo has long maintained standardized processes for due diligence, which it has refined over time. After a private equity investment is made, Apollo engages the portfolio company—a private company in which an Apollo-managed fund has taken a controlling or otherwise substantial position—on risk management matters, delivering a Portfolio Company Handbook that outlines expectations and provides resources regarding risk management. Apollo also retains a leading law firm to conduct a biennial assessment of its portfolio companies' international legal risk profiles.

Apollo has recently enhanced its capacity to be a positive force in society, both through the investments made by Apollo-managed funds and in the company's own operations and community engagement. Although Apollo has had an Environmental, Social, and Governance ("ESG") program for over a decade, in recent years it has updated its ESG policy and increased the resources devoted to its ESG program. In 2019, the company hired a Global Head of Citizenship, who has developed a strategic approach to philanthropy and employee engagement in the community. In 2020, Apollo announced the creation of a dedicated impact investing platform, which will focus on economic opportunity; education; health, safety, and wellness; Industry 4.0; and resource sustainability. Looking inward, Apollo revitalized its approach to human capital, hiring a new Global Head of Human Capital and a Global Head of Leadership Development and Diversity. Under their leadership, Apollo is developing a comprehensive Diversity and Inclusion ("D&I") strategy that builds upon and expands Apollo's existing efforts. Apollo is making D&I best-practices and resources available to its funds' portfolio companies and has devoted resources toward supporting these portfolio companies' diversity and veterans initiatives.

Together, the steps taken by Apollo over the past few years have enhanced its processes for reputational risk management and corporate citizenship. While detailed information about the relevant practices of other alternative investment managers is not publicly available, Apollo's processes appear to be aligned with, and in some cases leading, industry standards. At the same time, we have identified two areas where Apollo should implement additional procedures.

First, like many companies, Apollo's processes are focused on managing reputational risks arising from its own business activities. However, as evidenced by the recent controversy concerning one of Apollo's co-founders, Leon Black, and Jeffrey Epstein, activity by prominent executives outside of their Apollo capacity can create reputational risk for Apollo. This is not a phenomenon unique to Apollo. We live in an era where many founders and other corporate leaders engage in substantial business, investment, political, and philanthropic activities apart from their corporate roles. These activities, as well as the personal conduct of these executives, can create reputational risk for the companies they lead. We recommend that Apollo implement procedures to mitigate these reputational risks and have identified several potential ways of doing so.

Second, while Apollo has strengthened its processes for considering reputational risk prior to making an investment and while it periodically reviews legal risks arising from the portfolio companies of its funds, it lacks a formal and standardized process for periodically assessing reputational risks across these portfolio companies and other major investments. This creates the possibility that a portfolio company's executives—who are not Apollo personnel—will manage the company in a manner that creates undue reputational risk for Apollo. While Apollo personnel commonly serve on the boards of such companies, a lurking reputational risk may not be elevated to the board. For that reason, we recommend that Apollo commission periodic outside assessments of reputational risks in the portfolio companies of its funds (and possibly other major investments), similar to its existing biennial review of legal risks.

Additionally, as noted above, Apollo has in recent years taken numerous steps to strengthen and institutionalize its management of reputational risks and to enhance its corporate citizenship initiatives. A number of these efforts are nascent and many are still evolving. We recommend that Apollo continue to devote attention and resources to their implementation and maturation. We also recommend that Apollo use internal and external resources to assess the efficacy of these functions, as it does in the benchmarking exercises it undertakes for its Anti-Money Laundering ("AML") procedures or ESG standards. For example, Apollo should engage an external expert to review its growing ERM function in one to two years. Similarly, Apollo has significant plans underway to expand its D&I efforts to redress long-standing diversity challenges within the alternative investment management sector. Those important efforts should continue and Apollo should plan for rigorous assessments of their effectiveness in the near future.

I. Background

A. Nature of Review

Apollo engaged WilmerHale to conduct an accelerated review and assessment of the framework Apollo has established pertaining to reputational risk management and corporate citizenship, to identify opportunities for improvement in these areas, and to make recommendations accordingly. In conducting this review, we have not assessed the implementation of Apollo's processes in specific circumstances, nor have we undertaken to advise on the content of every policy or procedure. We also have not attempted to catalogue every risk management practice used by Apollo. Instead, we focus on the infrastructure that Apollo has put in place, as an organization, related to reputational risk management and corporate citizenship.

In connection with our review and assessment, WilmerHale interviewed over twenty Apollo leaders and process owners, including senior leaders in Human Capital, Legal/Compliance, Communications, Government Relations, Citizenship, and ESG functions. We also spoke with multiple external consultants and vendors who provide strategic advice and services related to reputational risk management, including RosettiStarr, an investigative firm that provides background checks; Hamilton Place Strategies ("Hamilton"), a strategic communications firm that conducts reputational risk assessments on prospective investments; and Kirkland & Ellis LLP ("Kirkland"), a leading international law firm that conducts a biennial assessment of Apollo-managed funds' portfolio companies' international legal risk profiles.

WilmerHale also reviewed key documents, including policies and procedures pertaining to a number of potential risks. Materials reviewed include Apollo's employee handbook; its Portfolio Company Handbook; protocols for Know Your Customer ("KYC") and AML related diligence; supervisory procedures and deal manuals; risk assessment templates for portfolio companies and vendors; representative samples of risk reports and memoranda prepared by third-party consultants; training materials for new employees and investment professionals around compliance issues; annual reports; and materials related to Apollo's corporate citizenship initiatives, D&I efforts, and its impact investing platform. WilmerHale had access to key individuals at Apollo and relevant third parties, who we found to be forthcoming and candid in their responses, as well as access to all documents we requested to conduct our review.

B. Apollo's History and Growth

Since Apollo's founding in 1990, it has grown to become one of the world's largest alternative asset managers, investing across credit, private equity, and real assets. With that evolution, the firm's AUM, business operations, transaction volume, and organizational size has grown substantially. Just in the last decade alone, Apollo has grown its total AUM at a 20% compound annual growth rate, from approximately $58 billion in the third quarter of 2010 to approximately $433 billion in the third quarter of 2020.[3] Today, Apollo manages capital for hundreds of fund investors in dozens of countries and employs more than 1,600 employees, including approximately 500 investment professionals—nearly triple the number of employees it had at the start of the decade. In 2011, Apollo became a public company, trading on the New York Stock Exchange.

During this period of transformative growth, like many institutions facing increasing complexity and scale, Apollo has sought to underscore its shared cultural norms for ethical behavior with specialized resources and processes to facilitate risk management. Although interviewees stated that Apollo has long been committed to a culture of integrity and prudence, they said that the company's approach to risk management has appropriately become more formalized due to Apollo's growth and an evolving risk landscape. Additionally, as part of Apollo's transition from a private entity to a public company, the firm implemented a number of governance and disclosure practices to comply with securities requirements, giving LPs and other stakeholders greater transparency into Apollo's practices and management.

C. Increasing Focus on Reputation and Corporate Citizenship in Alternative Investment Management

In the years following the 2008 financial crisis, several developments fueled an increasing focus on reputational concerns within the alternative investment management sector.[4] *First*, the exposure of misconduct by some financial institutions and the subsequent social and political response have increased negative public sentiment towards financial institutions and business. *Second*, government regulation of the financial sector has increased. *Third*, a changing media environment and the growth of social media have enhanced scrutiny across the business landscape. *Fourth*, alternative investment management firms have grown dramatically over the last two decades. In 2019, private equity firms globally managed $3.4 trillion in investor commitments, up from less than $500 billion in 2000.[5] Similarly, the number of active buyout, real estate, and credit funds grew from slightly over 900 to more than 5,500 funds between 1998 and 2018.[6] As a result, such firms now play an expanded role in the markets and in the economy, both with respect to their scale and the capital needs they are positioned to meet.

At the same time, institutional investors are asking more questions, both about investment managers and prospective fund investments. One of the largest sources of capital for Apollo and its peer firms are private and public pension funds—investors who tend to be highly concerned with reputational risk. In fact, a 2019 study by State Street Global Advisors found that pension funds were "most concerned with reputational risk" out of all categories of investors surveyed.[7] As a result, Apollo and many of its peer firms have frequently identified reputational risk considerations as a key business risk.[8]

The shifting social, political, and investment environment has also heightened the industry's focus on corporate citizenship. Historically, corporate citizenship programs within the alternative investment management sector have been informal and often heavily focused on corporate philanthropy and employee volunteer activities. In recent years, however, asset managers—like the financial services industry at large—have begun to formalize, invest in, and expand their corporate citizenship functions significantly. Several factors have fueled this change. *First*, as studies have shown, corporate citizenship can drive strong business performance—companies are recognizing that it is in their financial interest to be mindful of ESG factors, workplace diversity, and other corporate citizenship indicators.[9] *Second,* the corporate workforce—of which younger employees are becoming a growing proportion—now more than ever before expects employers to prioritize social responsibility and be good corporate actors.[10] *Third*, companies are increasingly finding that strong corporate citizenship programs help to facilitate stronger employee engagement in the company, which in turn can drive attraction and retention of stronger workforce talent.[11] *Fourth*, institutional investors have increasingly prioritized ESG factors in assessing their investments.[12]

D. Industry Practices on Reputational Risk

Publicly available materials from Apollo's peer firms do not disclose specific details of their processes to manage reputational risk. They do, however, provide high-level outlines of their stated approach. Typically, these firms have a dedicated committee or function to identify, assess, and mitigate enterprise risks, including reputational risk. These committees are typically comprised of senior executives and are supported by additional infrastructure designed to escalate and manage key risks as they arise. For instance, one of Apollo's peers, like many corporations, has an Enterprise Risk Committee that identifies, assesses, and mitigates key risks both operationally and at the fund level. That firm's senior management makes regular reports to the Audit Committee of the Board of Directors on risk matters evaluated by the Enterprise Risk Committee by providing periodic risk reports, management's views of key risks to the firm, and detailed assessments of selected risks.[13]

Peer firms also incorporate ESG considerations and risk assessment into their investment process and decision-making. Several have published formal policies or guidelines that describe how these considerations are factored into the investment process.[14] One peer, for instance, describes a four-step framework in its Responsible Investing Policy that looks for risks—including reputational concerns—in the pre-screening process for a particular investment; assesses these risks during the diligence process; and includes analyses of these risks during the investment committee's evaluation of a given transaction.[15] That institution also monitors and manages risks following an investment, and has prioritized helping its funds' portfolio companies spot risks by adding internal teams that study "global macroeconomics, technological disruption, and political change."[16]

Looking more broadly, to general best practices to manage reputational risk, commentators have noted a "lack of common standards" among "[r]egulators, industry groups, consultants, and individual companies" in defining and measuring reputational risk.[17] A review of publications from prominent consulting firms nevertheless provides some reference to commonly advised—though relatively high-level—best practices on reputational risk management. These include:

- **Assess the firm's vulnerability to reputation-related damage.** Reputational risk concerns often emerge when there is a gap between a company's perceived reputation and the reality of its operations.[18] Companies should assess their vulnerability by developing both a baseline view of the company's existing reputation among key internal and external stakeholders and an understanding of threats that could disrupt how the company is perceived.[19]

- **Monitor societal trends.** Reputational risk also arises when societal expectations or perceptions shift and companies fail to evolve.[20] Monitoring public sentiment on hot-button issues can ensure that a firm can proactively make internal changes to ameliorate perceived reputational issues before they devolve into a crisis.[21]

- **Establish a risk governance structure and processes to identify and mitigate reputational risk.** Firms should create a cross-functional, management-level reputational risk committee whose mandate should include identifying, tracking, and mitigating risks.[22]

- **Ensure senior leaders "set the tone."** Senior leaders should emphasize the importance of the firm's reputation and the seriousness with which it regards issues that could jeopardize its reputation.[23]

- **Create a culture of compliance by educating employees on key policies.** While firms should maintain a dedicated risk structure, they must also ensure that consideration of reputational risk is not siloed.[24] Firms should educate employees on reputational risk and the processes implemented to manage it.

- **Consider potential long-term effects of reputational risk.** In assessing potential reputational harm, companies should be sure to account for harder-to-measure long-term consequences, such as brand degradation or negative perceptions of corporate ethics.[25]

- **Affirmatively tell a positive story about your work.** Reputational risk management should not be solely focused on anticipating and handling *negative* sentiment. Firms should also build reputation by highlighting positive information about the entity's work. Such efforts can sometimes mitigate the impact of reputational threats on the perception of the firm.

As discussed further in Section II, the key components of Apollo's reputational risk management strategy—establishing internal structures and processes to identify and mitigate risk, integrating assessment and consideration of reputational risk into the investment process, educating employees on identifying and escalating risks, and ensuring senior leaders are involved in these efforts—align with publicly-available information on both its peer firms' practices and industry standards, and in some cases appear to be leading practices.

II. Apollo's Processes for Managing Reputational Risk

Interviewees reported that risk management has long been integral to Apollo's business and that, as the firm has grown, so too has its infrastructure for managing risk, including with recent improvements. They further emphasized that Apollo generally views all risks related to the firm's business as potential reputational risks, and we accordingly discuss below Apollo's processes for managing a number of operational and investment risks that can have reputational consequences. To begin, we review several initiatives Apollo has undertaken over the last three years to manage its reputational risk profile directly.

A. Recent Initiatives Targeting Reputational Risk

1. Creation of the Reputational Risk Committee

In October 2019, Apollo created a firm-wide, cross-functional Reputational Risk Committee ("RRC") to formalize and centralize Apollo's approach to managing reputational risk. The RRC's mandate is to proactively consider and address potential reputational risk issues before such risks materialize. It is comprised of key stakeholders from the business, the Legal/Compliance team, Human Capital, Public Relations, and Corporate Communications, as well as other senior leaders, to ensure that Apollo considers reputational risks with a diversity of expertise and cross-functional perspectives. Interviewees reported that the RRC is active and engaged—generally meeting at least weekly to consider potential reputational risks.

The RRC orients its mission around two mutually reinforcing objectives: education and capture. With respect to education, the RRC seeks to ensure that all investment professionals and deal teams are familiar with common reputational risk considerations and the protocols for addressing such issues. As for capture, the RRC seeks to ensure that committee members are aware of all potentially significant transactions and investments under consideration, and that any reputational risk considerations have been assessed by the RRC. This approach—of establishing a dedicated reputational risk management function, but ensuring it is not siloed—is an industry best practice.

In pursuing these objectives, the RRC has employed approaches tailored to the relevant business unit, recognizing the varied reputational risk considerations emanating from particular categories of investments. In the private equity space, funds managed by Apollo maintain an active, often-controlling interest in their investments, and transactions are typically lower volume and higher value than in typical credit transactions. As a result, there is a higher level of reputational, political, and regulatory scrutiny for each private equity transaction, because a portfolio company's activities are inevitably more directly linked to Apollo. Accordingly, for private equity transactions, every investment is reviewed by at least one member of the RRC. After a deal team conducts its own analysis on new investments and material company transactions to identify potential reputational, political, regulatory, or ESG-related risks, the deal teams present that analysis to a member of the RRC. The RRC member then determines whether the deal warrants additional due diligence or review by the full committee. As part of this process, Apollo also identifies positive stories, which Apollo may proactively share with appropriate stakeholders when the transaction is announced.

In contrast, credit transactions involve largely passive investments where Apollo has little to no involvement in the operation and decision-making processes of the applicable investment. Apollo's credit platform also has a higher volume of smaller transactions. The more attenuated relationship between Apollo and its credit-based investments changes the risk calculus and identification process. As a result, in contrast to the private equity side, where Apollo has mandated that the RRC review every investment, with respect to credit, it has employed a more education-oriented approach, training credit deal teams to self-identify and proactively escalate issues to the extent they arise. This allows the Credit Risk Committee to focus its energies on those particular investments where risk issues warrant greater scrutiny, rather than unnecessarily reviewing every high-volume, low-value transaction. As a result, interviewees reported that the RRC provides detailed training to credit professionals during their initial orientation on reputational risk, including illustrative examples "ripped from the headlines," featuring investments by other asset management firms that resulted in negative scrutiny or political responses. This training is continued through an employee's tenure, with quarterly meetings of investment committees across the credit platform that not only review credit transactions from a risk perspective but also provide continuing education on reputational, regulatory, and political risk. For each credit investment, the relevant deal team must affirmatively attest that there are either no risk consideration issues, or that such issues have been identified, vetted with the relevant risk committee, and approved, with further diligence conducted if necessary.

Interviewees reported that the establishment of the RRC and the formalization of screening processes have enhanced employees' focus on, and awareness of, reputational risk.

2. Retention of Specialized External Resources

Starting in 2018, Apollo retained Hamilton Place Strategies, a well-regarded boutique public affairs firm, to serve as an external resource for identifying and assessing reputational risk. Hamilton was founded by Tony Fratto, a Washington, D.C. veteran who has held key posts at the White House as Deputy Assistant to the President and Principal Deputy Press Secretary, as well as in the U.S. Treasury Department as the Assistant Secretary of the Treasury for Public Affairs. Hamilton describes its expertise as identifying, analyzing, and providing counsel on the mitigation of reputational, political, and regulatory risk. Apollo has engaged the firm to aid in pre-transaction diligence on a variety of potential investments to identify potential reputational risks. Hamilton thus provides an external, objective voice on potentially sensitive investment decisions. Interviewees from Hamilton reported that Apollo employs a "high level of vigilance" on assessing risk issues relative to many other private equity firms.

On a potential investment it is asked to review, Hamilton provides Apollo with a broad assessment—often including an analysis of media coverage; scrutiny of operational or governance issues, including the target's prior responses to internal problems; close examination of the target's senior leadership and board; and a review of industry and regulatory risks, including forecasting of how forthcoming legislative or political changes could affect a company or industry. Hamilton will provide counsel on steps Apollo could take to mitigate identified risks, but has also sometimes conveyed that a particular investment would be difficult to defend, reputationally. In those instances, Apollo has declined to move forward with the proposed transaction.

3. Establishing a Dedicated External Communications Function

Historically, Apollo pursued a largely reactive and relatively ad hoc approach to engaging with journalists. The function was overseen by personnel responsible for investor relations and relied heavily on an external public affairs firm. Apollo's approach to external communications shifted in 2019, when the company established a dedicated Corporate Communications department. Apollo hired Joanna Rose as its Global Head of Corporate Communications in December 2019. Ms. Rose came to Apollo with over a decade of communications leadership experience at The Related Companies, L.P., and significant prior experience in the public sector. The Corporate Communications department then launched a communications strategy focused on affirmatively building Apollo's reputation and avoiding potential reputational risk. The department participates in the RRC and other company-wide efforts to manage reputational risk, and over the last year has hired experienced public relations personnel to address media inquiries and engage with journalists. The department also oversees the company's website content and social media presence. Interviewees reported that Apollo's Corporate Communications department has significantly improved the quality and pace of Apollo's responses to journalists, employees, and other stakeholders when controversial issues arise. They also reported that this internal capacity has enabled Apollo to share positive information about noteworthy deals, the company's culture and values, and its corporate citizenship efforts.

4. Institutionalization of Government Relations

Apollo has also expanded and institutionalized its government relations function. From a historical perspective, interviewees reported that a number of senior company officials have longstanding relationships with policymakers, and that Apollo has retained government relations consultants in Washington, D.C. for years. Notably, Evan Bayh, a former Senator and the former Governor of Indiana, has served as a senior advisor to Apollo since 2011, providing strategic advice on government relations and regulatory risk to the firm. In the last year, Apollo also brought on Reggie Love as a Senior Advisor. Mr. Love, a former personal aide to President Barack Obama, has advised Apollo on both government and regulatory affairs, as well as its D&I efforts. Apollo has also long supported the American Investment Council ("AIC"). AIC is an advocacy and resource organization dedicated to providing information about the private investment industry and its positive contributions to the American economy and to the retirement security of American pensioners.

In recent years, Apollo has built on this foundation by creating a dedicated government relations team and hiring additional staff to support this work. Apollo's government relations team promotes consistent messaging and engagement across the senior Apollo leaders who interact with policymakers. The team also provides strategic support to portfolio companies on key issues affecting their businesses. While Apollo's government relations efforts remain deliberately smaller in scale than those of some of its peer firms, interviewees reported that these targeted efforts have been effective.

B. Management of Reputational Risk Arising from Apollo's Operations

In addition to procedures and resources specifically targeting reputational risk, Apollo has put significant infrastructure in place to manage underlying risks that can generate negative attention. In this section, we focus on such risks arising from Apollo's own operations, rather than investments made by funds under the firm's management. We have not attempted to catalogue every risk management practice utilized by Apollo, but discuss here areas particularly relevant to reputational risk. Apollo has expanded and strengthened these processes over time, both in response to its own growth and a shifting external environment. We begin our discussion with Apollo's 2019 hiring of Paulomi Shah as the firm's Head of Enterprise Risk Management and Trade Operations.

1. Enterprise Risk Management

Apollo recognizes that it must manage a broad set of risks across its business, including strategic, reputational, counterparty, liquidity, market, and operational risks. A robust ERM framework helps ensure that the firm is not unduly exposed to financial loss, legal or regulatory vulnerability, or reputational damage based on the mismanagement of these risk types.

In 2019, Apollo hired Paulomi Shah as its Head of Enterprise Risk Management and Trade Operations. Ms. Shah came to Apollo after serving as Managing Director and Head of Operational Risk for Bank of America's Global Banking and Markets business. She brings to Apollo an understanding of financial risks and experience with data-driven risk solutions and risk mitigation tools. Under her stewardship, Apollo is building a robust ERM function based on actionable risk-based data and formal structures and processes that seek to identify and manage risk appropriately. The company has developed an ERM incidents collection and management protocol that allows Apollo to better track, monitor, and address operational risk events as they occur. Apollo has also created an incident collection and analysis process that formalizes the review of errors to determine the causes of internal failures and to ensure remediation. Apollo also recently engaged PricewaterhouseCoopers to develop foundational materials, tools, and templates for enterprise-wide risk, control, and issue identification and documentation.

In December 2019, Apollo also implemented a new governance structure for ERM, creating a Global Risk Committee. The Committee is co-chaired by Apollo's Chief Risk Officer, Jasjit Singh, and Ms. Shah, and it includes key executives from firm management, drawing from both business leadership and key functions for risk management. The Committee oversees the processes and structures by which the company monitors and manages its enterprise risks. Committee members review and evaluate key risks, provide oversight and guidance to the business on such risks, help deploy relevant policies and procedures related to risk management, and manage Apollo's global ERM framework. Committee members are also expected to understand the goals of the ERM program and serve as "culture carriers" related to the implementation and integration of these goals within the organization.

Research demonstrates that Apollo's peer firms are also building out their ERM programs and implementing risk frameworks accordingly. These companies are experiencing and trying to respond to a common set of concerns, which include: (1) key person risk and process understanding; (2) the challenges of a bespoke business model leading to heightened operational risks; (3) investing in data when there has not been a notable problem to solve for; and (4) independence issues due to a lean staffing model. Over the course of the past few years, Apollo has bolstered its ERM program and has established strong processes that rival its competitors' and reflect industry standards. Apollo now has a formal ERM framework, enterprise governance structures, an incident management process, and risk management systems and tools, as well as an organizational structure that supports its ERM efforts. Apollo is in the process of developing a risk and control inventory, and it is scheduled to implement operational risk metrics, a dashboard, and an operational risk self-assessment in 2021.

2. Managing Business Partner Risk

One source of potential reputational risk is Apollo's association with a wide range of stakeholders with whom it has business relationships. Apollo has implemented processes to identify and mitigate those risks, and it has strengthened them in recent years.

Approximately two years ago, Apollo built on prior efforts to create a Vendor Management program dedicated to proactively identifying and addressing vendor risks, such as data security, negative news, and sanctions exposure. In addition to that screening, Apollo uses the Vendor Management program to seek vendors that align with Apollo's ESG priorities. Apollo requires contracts be reviewed by Legal prior to renewal, and it renews many vendor contracts on an annual basis, providing a mechanism for regular scrutiny.

Apollo also addresses vendor risk through an Expert Network Policy designed to minimize the potential risk of exposure to any material, non-public information from consultants that assist with researching potential investments. Before a company is engaged as an expert, Apollo's Compliance department runs a diligence review, checks third-party references, and reviews the vendor's insider and personal trading policies and compliance training program. Compliance also remains involved with investment professionals' interactions with experts to protect the firm from potential risk.

Apollo also has strong policies to address KYC and AML risks associated with its business partners—another source of potential reputational harm. Apollo's Compliance department conducts KYC and/or AML diligence on new deals, vendors, investors, expert network firms, and trading counterparties. This transaction-based diligence includes a review of not only companies involved in a transaction, but also their sellers, key directors and officers, certain co-investors, and purchasers, borrowers, and guarantors, where relevant. Given Apollo's recent growth and the corresponding increase in the volume of transactions, Apollo has worked to enhance its AML and KYC policies and procedures, including by providing deal teams with KYC and AML checklists and educating deal teams on the importance of reporting issues to Apollo's Legal and Compliance teams if issues should arise. In addition to the diligence processes described above, Apollo's Code of Ethics also requires employees to promptly report suspicious activities by any potential or current investors or counterparties to the AML Compliance team. Apollo's Compliance department has also worked closely with Kirkland, which has benchmarked Apollo's KYC and AML practices to ensure its practices are on par with those of its peer firms, and conducted biennial assessments of potential risk from portfolio companies that include KYC/AML concerns.

3. Managing Workforce Risk

Apollo has also implemented processes to manage reputational risk arising from its workforce, taking reasonable steps to vet and evaluate new hires and implementing policies and trainings designed to mitigate workplace risk among Apollo's existing workforce.

New hires—both employees and contractors—are subject to comprehensive background checks by an outside resource and detailed reference checks by Apollo's Human Capital team. For particularly sensitive roles, including executive staff, Apollo engages the investigative firm RosettiStarr to conduct extensive reviews of their professional background, any criminal history, involvement in litigation, social media presence, and family relationships. The results of RosettiStarr's review are assessed and signed off on as part of the hiring process by Apollo's Global Head of Human Capital, Matthew Breitfelder, and the company's Employment Counsel, Heather Glatter, both of whom joined the company in 2019. Apollo's General Counsel, Chris Weideman, also reviews the investigative firms' findings and confers with Mr. Breitfelder and Ms. Glatter about their assessments.

Beyond the hiring process, Apollo's Human Capital function is engaged in promoting strong workplace culture and reducing risk from misconduct by Apollo personnel. Apollo recognizes that workforce risks—including breaches of confidentiality, harassment, discrimination, and other misconduct—can expose the company to litigation and regulatory scrutiny, harm its reputation, and interfere with attracting and retaining talent. Apollo has sought to mitigate these risks proactively by training employees on the importance of compliance and appropriate conduct, encouraging employees to use the firm's employee whistleblower hotline to report areas of concern, incorporating conduct considerations into compensation decisions, and developing a conduct risk management framework. Apollo has also expanded resources for managing workforce risks. In 2019, it added Mr. Breitfelder as its new Global Head of Human Capital, additional Human Capital leaders, and an employment law specialist within Legal, Ms. Glatter. Before coming to Apollo, Mr. Breitfelder served as Chief Talent Officer and Managing Director at BlackRock, and previously served as Global Head of Talent Management & Organizational Development at Mastercard. Ms. Glatter came to Apollo after serving as a Director and Counsel at Credit Suisse.

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C. Management of Reputational Risk Arising from Apollo's Investments

Apollo also has significant resources and procedures to manage potential reputational risks arising from investments made by the funds it manages. This includes pre-investment diligence and oversight of portfolio companies. As with the infrastructure addressing potential risks arising from Apollo's operations, the company has institutionalized and strengthened these functions as it has grown and as the external environment has elevated the importance of reputational concerns.

1. Pre-Investment Diligence

We found that Apollo has strong processes governing pre-investment diligence that leverage the expertise of its internal Legal and deal teams and advice from outside counsel. We did not identify gaps in these processes, and understand that Apollo is largely in line with its peers with respect to the steps taken and resources dedicated to managing for risk at the pre-investment stage.

Interviewees reported that Apollo has long engaged in rigorous due diligence before an Apollo-managed fund invests in a portfolio company. Over a decade ago, as deal volume increased, Apollo's Legal department began to develop what now serves as Apollo's "Deal Manual." The Deal Manual is a comprehensive guide to a private equity investment from start to finish, with an eye toward identifying and managing risk. Designed to be used by Apollo's internal Legal/deal teams and by the firm's outside counsel, the Deal Manual begins with a master checklist covering key steps required at each stage of the deal process, including diligence on antitrust considerations, international risk, AML, regulatory regimes, and ESG. The Deal Manual goes on to provide detailed content on each stage of the transaction. This standardization helps prevent risks from being overlooked. Interviewees regarded the Deal Manual as foundational to Apollo's management of the reputational and other risks associated with private equity investments. Apollo also routinely engages leading law firms and other external resources to supplement its internal due diligence capability.

Investment committees overseeing each of Apollo's investment strategies—such as private equity, credit, and real assets—review and approve each investment or portfolio strategy. To facilitate committee review, the team working on the potential transaction prepares an investment memorandum. These memoranda, which are particularly detailed for major, long-term investments, include a description of the investment, the financial model, and relevant risks. They are reviewed by multiple parties, including Legal and relevant external advisors.

2. Oversight of Portfolio Companies

Apollo has also developed procedures to mitigate reputational and other risks arising from its funds' portfolio companies. To be clear, Apollo and the funds it manages do not direct the day-to-day operations of these portfolio companies—the companies maintain their own Chief Executive Officer and other C-suite executives. Apollo investment professionals are often seated on a portfolio company's Board of Directors and, in that fiduciary capacity, may help steer the portfolio company's strategic priorities and high-level management decisions, but neither Apollo nor its managed funds direct the portfolio company's business.

Apollo's strategy for engaging with portfolio companies around matters related to reputational risk begins with an onboarding process and delivery of its Portfolio Company Handbook. The Handbook outlines Apollo's expectations as to how its funds' portfolio companies will engage with Apollo on an array of issues, including Apollo's ESG program; legal, tax, and compliance matters; and human capital and D&I priorities. Per the Handbook, for example, Apollo expects portfolio companies to report on at least a quarterly basis regarding relevant changes to their businesses, material correspondence with regulators, and revisions to the companies' policies and procedures. The Handbook also sets expectations for Apollo's engagement with portfolio companies on ESG matters. For example, it explains that Apollo may conduct onsite visits, provide portfolio companies with webinars and other informational resources, and annually solicit ESG data from portfolio companies for inclusion in Apollo's ESG Annual Report.

Apollo also has established a process for periodic, systematic assessment of portfolio company legal risks. Starting four years ago, Apollo engaged Kirkland to conduct a biennial risk assessment of companies in Apollo's portfolio. These reports review and assess the portfolio companies, providing information about their business, discussing their anti-bribery/anti-corruption, sanctions/AML, and/or harassment policies, and (where appropriate) making recommendations for improvement in these areas. Based on its review, Kirkland assigns an overall risk rating to each portfolio company to help guide Apollo's risk management. Interviewees from Kirkland stated that they have not identified any major red flags or high-risk portfolio companies, and suggested that this may be attributable in part to Apollo's ongoing engagement with portfolio companies by reviewing their policies and procedures and providing risk management resources and tools.

III. Apollo's Processes for Promoting Corporate Citizenship

In recent years, Apollo has also taken steps to institutionalize and expand initiatives that promote good corporate citizenship. As noted above, corporate citizenship is separate from, but related to, reputational risk management—it refers to the practices and initiatives that an organization employs to positively impact society. In several respects, Apollo's recent investments in this function build on practices that predate the industry's increasing focus on corporate citizenship. For example, interviewees reported that Apollo has historically relied on ESG factors to inform its business and investment decisions, well before those considerations were conceptualized as "ESG." Apollo's recent initiatives to evolve and strengthen corporate citizenship include further developing its already-robust ESG program, launching a new impact investment platform, revitalizing Human Capital and D&I leadership, and related initiatives. In different ways, each of these initiatives strengthen Apollo's ability to positively impact society.

A. Apollo's ESG Program

As noted above, interviewees reported that Apollo's private equity business has historically relied on ESG factors to inform its business and investment decisions. They shared that Apollo considers how its operations and that of its funds' portfolio companies impact the natural environment; the social relationships among employees, suppliers, customers, and communities; and the governance obligations and rights of shareholders and company leadership. While ESG-conscious investing has taken on heightened importance in recent years among LPs and the public more broadly, interviewees said that ESG factors have long been "foundational to" Apollo's identity and "woven into the fabric of" its investment strategies, even before there was an industry vocabulary around ESG. Apollo stated, in its 2019 ESG Annual Report, that it believes that "actively managing ESG risks and seizing ESG opportunities makes [Apollo] [a] better investor[], and better steward[] of [its] investors' money, by positioning Apollo and portfolio companies for sustainable success."[26]

Apollo formally established a firm-wide ESG policy in 2007. Since then, its ESG program, led by Apollo's Global Head of ESG and Private Equity General Counsel, Laurie Medley, has played an important role in driving the firm's corporate citizenship efforts. In 2019, Apollo implemented an updated policy to guide the ESG dimension of each of Apollo's asset classes—private equity, credit, and real assets. Apollo's ESG program has three pillars: diligence, engagement, and transparency. The policy thus focuses on integrating ESG factors into investment analyses and decisions, engaging with investment professionals and portfolio companies (where relevant) to identify ESG risks, and encouraging transparency regarding ESG performance and risk management. Our review identified systems and structures at Apollo oriented toward each of these three pillars. Interviewees stated that Apollo stands out among its industry peers as a leader in ESG engagement and reporting.

Apollo's ESG Steering Committee, which is chaired by Ms. Medley, oversees the company's ESG program. The Steering Committee contains several senior business executives, as well as senior leaders from Apollo's Human Capital and Legal departments. The Steering Committee is supported by four "Green Teams"—one firmwide team and one for each major asset class. The teams support and facilitate the implementation of ESG policy and procedures, including through oversight of ESG-related diligence, collection and reporting of ESG data, and ESG-focused engagements with portfolio companies and others. The teams periodically report ESG-related opportunities, challenges, and progress to the ESG Steering Committee. Where appropriate, the Green Teams can escalate concerns to the ESG Steering Committee on an ad hoc basis. The ESG Steering Committee addresses ESG challenges escalated by the Green Teams and determines whether those issues warrant escalation to Apollo's Board of Directors.

Apollo also has created a structure for bringing ESG issues to the attention of LPs. The firm's Private Equity Advisory Board, which is composed of prominent LPs and major investors with authority over conflicts issues, maintains an ESG Committee. The committee meets at least twice a year to assess ESG issues related to Apollo and its funds' portfolio companies, and to determine whether any of those issues warrant escalation to the Private Equity Advisory Board, which meets with Apollo biannually (as is common in the industry). If an ESG issue is escalated to the Private Equity Advisory Board, that board determines whether to bring the issue to the attention of a broader group of LPs.

Apollo has published an ESG Annual Report since 2009. It describes how Apollo and its funds' portfolio companies address ESG considerations. Structured around the three pillars of Apollo's ESG program—diligence, engagement, and transparency—the report describes the efforts made by Apollo and the portfolio companies to identify ESG risk, meaningfully engage on ESG issues, and publicly disclose how they approach priorities like climate change, environmental sustainability, corporate governance, workplace safety, and diversity. The report reflects a major undertaking by Apollo to annually collect qualitative and quantitative ESG information from portfolio companies, and synthesize that information into a comprehensive report. Interviewees cited Apollo's routine surveying of portfolio companies as an important means of identifying and monitoring potential ESG risk.

Apollo also annually benchmarks its ESG disclosures against those made by its industry peers and readily shares the results of this benchmarking review with its LPs. Interviewees reported that, to their knowledge, Apollo was the first investment manager to publish the results of such a benchmarking review to its LPs, and that Apollo's most recent benchmarking review suggests that it is ahead of the curve on ESG reporting. Indeed, Apollo's most recent review indicates that roughly half of Apollo's peers do not publish annual ESG reports and that the published reports on average disclose fewer metrics than does Apollo's report.

B. Enhancing the Citizenship Function

In November 2019, Apollo hired Lauren Coape-Arnold as its Global Head of Citizenship. Ms. Coape-Arnold came to Apollo with experience launching and scaling strong citizenship programs, including previously at Two Sigma and Guggenheim Partners where she most recently served as the Managing Director and Head of Corporate Social Responsibility ("CSR") and created the firm's CSR program.

At Apollo, Ms. Coape-Arnold is responsible for driving a citizenship program centered around three elements: (1) philanthropy; (2) employee engagement in citizenship initiatives; (3) and engagement by Apollo, as a firm, on larger societal issues. While the firm and its personnel had previously engaged in philanthropy and community service, Apollo's commitment to empower an experienced leader to develop and implement a company citizenship strategy is a significant development. Ms. Coape-Arnold works with two committees, the Citizenship Steering Committee and Citizenship Advisory Committee. The Steering Committee is composed of senior leaders at Apollo and advises the Citizenship team to ensure that its programs are effective and impactful. The Advisory Committee is composed of more junior leaders and works to implement the program and drive employee engagement.

Apollo's citizenship program has already been enhanced in several ways. Eligible employees now have a "Citizenship Grant" of $2,500, which can be directed to non-profits either through matching gifts for employee contributions or gifts tied to time spent by the employee volunteering for an organization. This program is managed through a third-party online platform, Benevity. It has already impacted more than 1,500 non-profit organizations. Apollo's Global Head of Citizenship also holds one-on-one meetings with Apollo employees to discuss how they want to give back to their communities and to support them in developing tailored strategies for doing so. Among other things, this effort has helped employees identify and volunteer for non-profit board placements.

Apollo's citizenship function has also assisted company leaders in guiding the firm's response to pressing social issues. For example, in confronting the COVID-19 pandemic, the citizenship function helped Apollo coordinate a variety of virtual volunteering opportunities and, in collaboration with the family foundation of an Apollo founder, helped the firm procure and donate 100,000 KN95 masks to the State of New York and a hospital in Elmhurst, Queens. In 2020, the citizenship function also helped guide Apollo's philanthropy and communications concerning its commitment to racial justice in response to rising social movements against racial injustice and discrimination.

Finally, Apollo's citizenship function has recently begun to serve as a resource to portfolio companies, coaching them on how to strengthen their own citizenship initiatives.

These efforts and advancements have been highlighted internally by Apollo leadership and recognized externally by Newsweek and Statistic Inc. In December 2020, Apollo was named as one of America's Most Responsible Companies by Newsweek and Statistic Inc. for its ESG work and corporate citizenship efforts. Apollo was the only alternative investment management company included on the list.[27]

C. Launching Apollo's Impact Investing Platform

In 2020, Apollo took a major step to advance its capacity to do social good by announcing the launch of a dedicated private equity impact investing platform. The platform will pursue equity-like opportunities including buyouts, carve-outs, fundamentals-based growth equity, and stressed capital structure investments that conform with impact goals. Those goals are aligned with the United Nations Sustainable Development Goals.[28] Apollo plans to leverage its expertise across the following five areas to achieve meaningful and longstanding impact at scale: (1) education; (2) economic opportunity; (3) health, safety, and wellness; (4) resource sustainability; and (5) Industry 4.0, which Apollo conceptualizes as companies creating technologies that facilitate the other impact goals.

Apollo's longstanding expertise in private equity and commitment to ESG considerations could position it to play a significant role in impact investing. Interviewees reported that many impact investment funds currently focus on early and growth stage companies. Apollo brings to impact investing both expertise in sourcing and closing later-stage investment opportunities, and the capacity to do so at a scale that can accelerate business transformation. By working with more mature, differentiated companies, interviewees reported that Apollo hopes to drive more impactful and sustainable change within—and throughout—these organizations.

Apollo's impact investing platform will be led by Impact Chairperson Lisa Hall and Co-leads of Impact, Marc Becker and Joanna Reiss. Ms. Hall joined Apollo in June 2020 after serving as a Fellow and Fair Finance Lead at Georgetown University's Beeck Center for Social Impact and Innovation. Previously, she served as a Managing Director at Anthos Fund & Asset Management, where she led the company's impact investing strategy. She also served as President and CEO of Calvert Impact Capital. Mr. Becker, a 24-year Apollo veteran, was appointed Co-lead of Impact alongside Ms. Reiss, who joined Apollo from Cornell Capital in September 2020, where among other roles she established the firm's ESG program.

Finally, while Apollo is currently focused on launching its private equity impact-investing platform, its long-term impact strategy contemplates expanding the impact approach to other asset classes where it has expertise, such as credit and real assets.

D. Revitalizing Human Capital and D&I Initiatives

Apollo has also recently strengthened its commitment to corporate citizenship by reinventing and reinvesting in its approach to human capital and substantially expanding its D&I initiatives. These steps began with the 2019 hiring of a new Global Head of Human Capital, Matthew Breitfelder, who brought to Apollo experience running a progressive human resources program at BlackRock. Several additional executive hires within Human Capital followed, including a Chief Operating Officer and new global heads of Compensation, Talent Development, and Leadership Development and Diversity.

Apollo has since made a number of changes to how it manages and engages with its workforce. For example, the company conducted its first annual employee surveys in the past two years. These surveys generate data to guide decision-making around human capital and to measure progress. The company has also launched various wellness initiatives and a speaker series on leadership.

Apollo has also increased the resources devoted to D&I initiatives. In 2020, it hired Jonathan Simon as its Global Head of Leadership Development and Diversity. Mr. Simon, who comes to Apollo with over 15 years of financial services experience, including most recently as an Executive Director at JPMorgan Chase where he focused on diversity initiatives, is maturing and adding structure to Apollo's existing D&I initiatives. Those existing initiatives are evident in Apollo's employee resource groups; partnerships with diversity-focused organizations (*e.g.*, Sponsors for Educational Opportunity, Thirty Percent Coalition, 100 Women in Finance, and, more recently, The Robert Toigo Foundation, Out & Equal, and the USC Race and Equity Center); and initiatives like the Apollo Veterans Talent Network, which connects veterans to job opportunities at portfolio companies.

The company is developing a comprehensive D&I strategy, which will build upon and expand these efforts. For example, Apollo has begun one-on-one coaching on D&I goals for leaders through the organization—going forward, leaders will self-assess their contributions to the firm's D&I efforts and these assessments will ultimately factor into their performance reviews. Mr. Simon also analyzes data from the recently instituted annual employee surveys to help Apollo identify, understand, and respond to gender- or race/ethnicity-based differences in employees' experiences and perceptions. Apollo also recently created a D&I Steering Committee, which includes senior executives, to guide its work.

Apollo's D&I function also partners closely with the firm's citizenship program to engage employees through various employee resource groups, including the Apollo Women Empower group, the Apollo Veterans Initiative, and two recently formed groups related to families and the LGBTQIA community. Participation in these groups is sometimes used to encourage employees to engage on broader societal issues. For example, Apollo recently launched a campaign where the company contributed $100 to a LGBTQIA non-profit organization for each employee who shared what it meant to them to be an ally to the LGBTQIA community.

Apollo's D&I initiatives are also directed toward portfolio companies. The company offers guidance and resources to support the D&I strategies of its funds' portfolio companies. As part of this effort, Apollo conducts surveys to assess the extent of portfolio companies' D&I activities and their receptivity to D&I-related guidance from Apollo. A recent survey showed that about half of Apollo-managed funds' portfolio companies wanted Apollo's help in "creating/executing a D&I strategy with clear initiatives and focus areas," and more than half wanted Apollo's guidance in "providing education on cultural awareness, unconscious bias, or other diversity topics." In response, Apollo recently developed a comprehensive "D&I Playbook" that will be shared with the portfolio companies of Apollo-managed funds in 2021.

The D&I Playbook emphasizes the importance of D&I and offers portfolio companies best-practice guidance on how to approach D&I by (1) assessing/evaluating where the company stands relative to its D&I goals; (2) ensuring that leaders are aligned on the company's D&I objectives and modeling inclusive behaviors; (3) training leaders and employees on why D&I matters; and (4) recruiting, developing, and retaining diverse talent. Apollo is also focused on recruiting diverse candidates to portfolio companies' boards and management ranks, and in 2021 is launching a quarterly speaker series for portfolio company CEOs to discuss D&I issues.

Apollo also recently joined as a signatory to the Institutional Limited Partners Association's Diversity in Action initiative, which brings together limited and general partners who share a commitment to advancing diversity, equity, and inclusion in the private equity industry.

IV. Assessment and Recommendations

Although risk management has long been ingrained in Apollo's business practices, the company's significant growth over the last decade and the transformation of the social and investment landscape in recent years have increased the importance of a structured and rigorous approach for identifying, mitigating, and avoiding reputational risks, and cultivating a workplace that does good for its employees and communities. In recent years, Apollo has responded to those developments by taking steps to enhance its reputational risk management and corporate citizenship functions. It has expanded the resources devoted to these functions, hired experienced leaders, and implemented important new processes to build upon its existing framework.

These actions have represented progress, and Apollo appears well-positioned to further mature its reputational risk and corporate citizenship functions in the future. As discussed above, the absence of detailed information about the practices of other alternative investment managers makes it challenging to benchmark thoroughly the strides Apollo has made in this area against those of its peers—but our overall assessment indicates that Apollo's processes are generally aligned with industry best practices on reputational risk management and corporate citizenship. In some cases, it appears to have adopted industry-leading practices.

However, a number of these steps were taken in the past few years and are still evolving. Thus, progress will require continued attention, resources, and assessment to assure the effective maturation and performance of these structures and processes. This will require continued management focus.

We also have identified two opportunities for improvement in Apollo's policies and practices related to reputational risk management.

First, like many companies, Apollo's processes are focused on managing reputational risks arising from its own business activities. However, as evidenced by the recent controversy concerning Mr. Black and Mr. Epstein, activity by prominent executives *outside of their Apollo capacity* can create significant reputational risk for Apollo. This is a common challenge for companies with founders and other prominent executives who have an independent public profile and possess the means to engage in major endeavors outside of their corporate capacities. These activities, as well as the personal conduct of these executives, can create reputational and other risks for the companies they lead. While Apollo does have some policies in place related to the outside activities of its executives (*e.g.*, policies addressing potential investment conflicts), those policies do not specifically address reputational risk.

Second, Apollo does not currently have a formal and standardized process for conducting a high-level assessment of reputational risk across its funds' portfolio companies and other major investments. Apollo has a strong interest in managing those reputational risks because portfolio company practices and incidents are often associated with Apollo, even though the portfolio companies have their own executive teams that set strategy and manage operations. While Apollo personnel commonly serve on the boards of these companies, there is a risk that reputational concerns will not be elevated to the board or even that the management and board of a portfolio company will lack the broader perspective necessary to recognize potential threats to Apollo's reputation. Apollo does systematically and proactively survey legal and compliance risks at its funds' portfolio companies, and does conduct an annual survey on ESG metrics—both processes that likely reduce reputational risks. However, there is no process directly focused on reputational concerns.

We accordingly make the following recommendations:

1. Expand procedures to mitigate and avoid potential reputational risk arising from senior leaders' outside activity.

To address the first point identified above, we recommend that Apollo establish processes to monitor and mitigate potential reputational risks arising from the business and personal activities of its senior leadership outside of their roles at Apollo. Even though numerous companies face this type of risk, we are not aware of a settled approach or best practice for managing it. Some companies evaluate those activities periodically; others do so when considering the elevation of an executive. We recommend that Apollo consider a range of mechanisms for monitoring and mitigating this risk and implement a package of measures that are calibrated to reduce Apollo's risk without imposing unnecessary or undue burdens on its senior leadership. Options to address this risk could include:

- Conducting periodic background investigations on Apollo's prominent executives, akin to what he or she would face if being newly appointed to this role. This would parallel Apollo's approach to vendors, which face regular reviews, and be akin to the government's practice for security clearances, the holders of which are subject to periodic reinvestigation.

- Sharing best practices around risk management with institutions closely associated with prominent Apollo executives, such as family offices, sports teams, and/or restaurant groups.

- Offering senior executives access to the company's resources for background checks, vendor management, and related procedures, either as part of the executive's compensation or on a reimbursable basis. Apollo could also consider mandating that those services be used with respect to anyone hired to provide personal services to the executive or an entity closely associated with him or her.

- Offering, as part of an executive's compensation, access to a consultant or counsel to advise the executive on questions of reputational risk or crisis management.

Implementing one or more of these practices should serve several important purposes: reminding Apollo's senior leaders that their outside conduct and relationships may come under scrutiny; empowering both Apollo and its executives to regularly assess and affirmatively manage the aspects of their outside activities that might create reputational harm; and signaling to Apollo's LPs and other key stakeholders that Apollo has improved its internal processes to address this category of risk.

2. Engage an outside party to conduct a reputational risk review of Apollo-managed funds' portfolio companies.

To address the second point identified above, we recommend that Apollo develop a process to review on its own initiative potential reputational risks at portfolio companies (and potentially other major investments) of Apollo-managed funds. Such a process would complement the existing efforts to collect data on ESG metrics and review legal risks. We recommend retaining an external resource with expertise on this issue to conduct this reputational risk review, similar to Apollo's use of outside counsel for the biennial legal risk assessments.

3. Continue to invest in these functions and plan for outside assessments of them.

As noted above, a number of the processes we discuss here were implemented recently and are still evolving. Apollo should continue to devote executive attention and expanded resources to these functions as they grow and mature. We also recommend that Apollo plan to use internal and external resources to assess the efficacy of these functions, similar to the benchmarking exercises it undertakes for its AML procedures or ESG standards. For example, Apollo should plan to engage an outside expert to review its growing ERM function in one to two years and benchmark its progress against best practices. Similarly, Apollo has significant plans underway to expand its D&I efforts to redress long-standing diversity challenges within the alternative investment management sector. Apollo should plan for rigorous assessments of the effectiveness of those efforts, potentially by an external D&I expert.

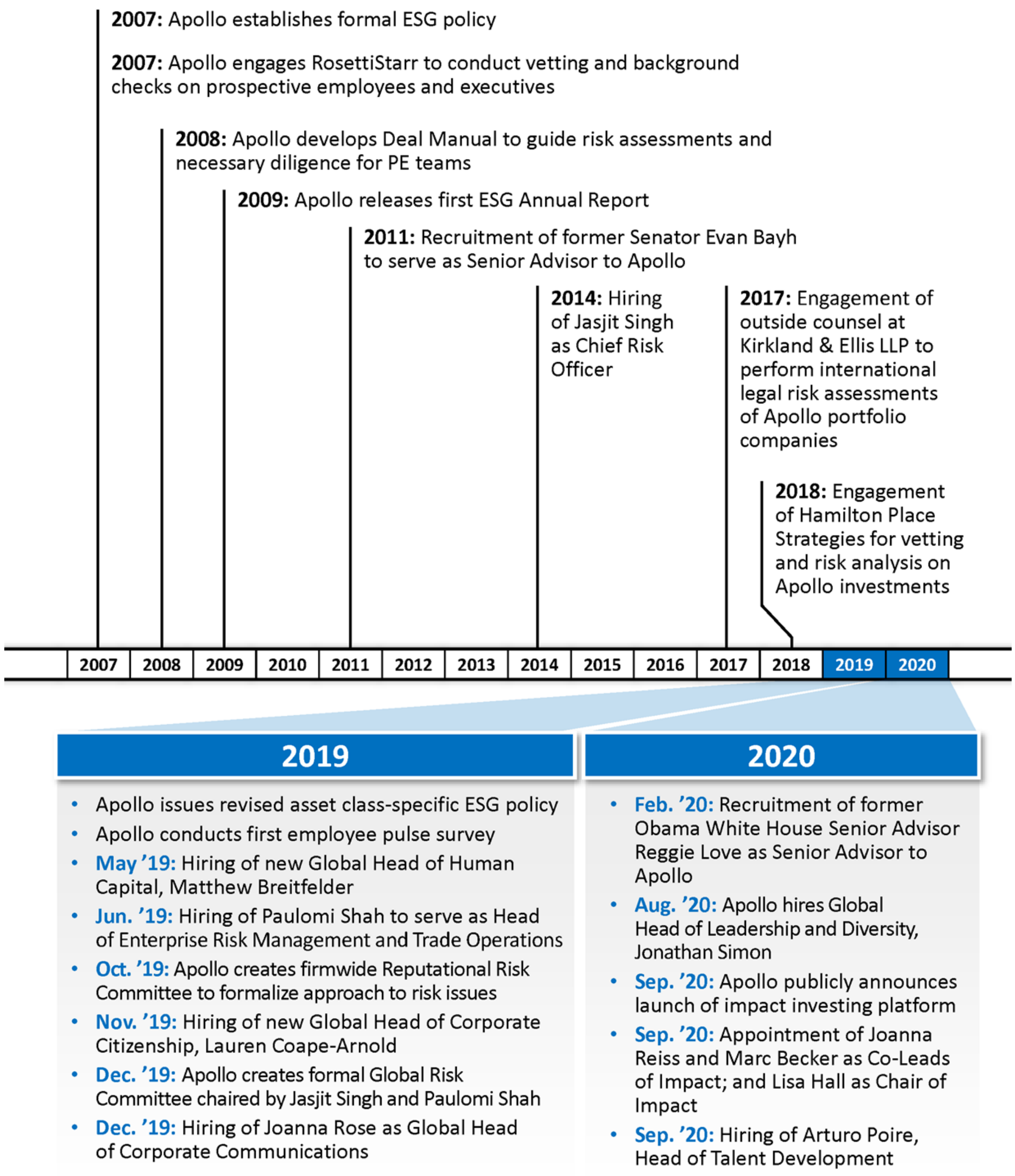
4. Further expand citizenship initiatives, particularly D&I efforts.

In recent years, Apollo has significantly expanded the resources devoted to corporate citizenship. Since August 2020, in particular, it has made important progress in formalizing and expanding its D&I function. We recommend that this work continue to be a priority. We understand, for instance, that Apollo is considering how to better retain diverse employees, including by creating a mentorship program with executive-level sponsorship for high-performing diverse employees. We recommend proceeding with that idea in the near-term. Apollo should also assess whether its employee resource groups are effectively supporting employees and determine whether additional groups, such as one for employees of color, would be beneficial. Additionally, we understand that under Mr. Simon's leadership, Apollo is planning to expand its efforts to increase hiring of diverse employees; for example, by broadening its sourcing strategies for candidates with non-traditional backgrounds and partnering with programs designed to increase diverse representation in finance. We recommend executing on those plans.

* * *

Please do not hesitate to contact us if you would like to discuss our assessment or recommendations.

Exhibit A: Timeline of Key Developments



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[11] *E.g.*, Sarah Ketvirtis, *How Corporate Citizenship Impacts Employee Engagement*, (June 2012) https://www.sesp.northwestern.edu/masters-learning-and-organizational-change/knowledge-lens/stories/2012/how-corporate-citizenship-impacts-employee-engagement.html (showing that employees' engagement scores showed increased correlations with active engagement in corporate citizenship programs); C.B. Bhattacharya et al., *Using Corporate Social Responsibility to Win the War for Talent*, MIT SLOAN MGMT. REV. 1 (Winter 2008) (finding that corporate citizenship programs aid in attracting and retaining strong talent).

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