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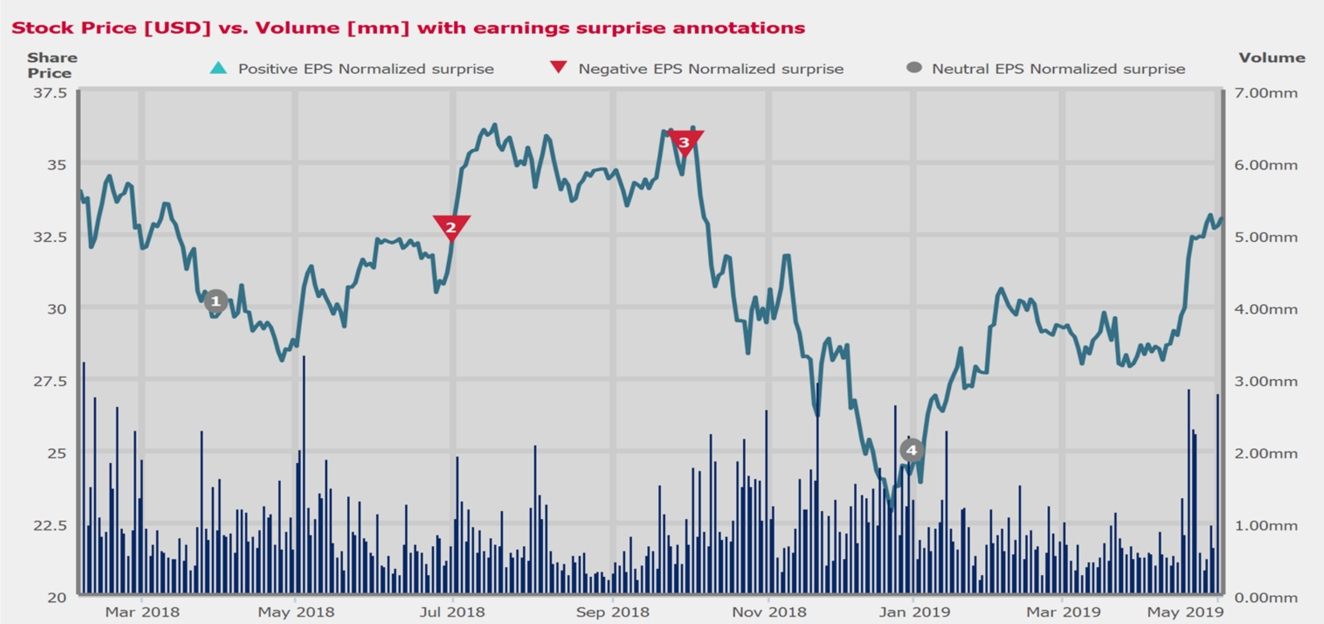
Market Intelligence

Apollo Global Management, LLC
NYSE:APO
FQ1 2019 Earnings Call Transcripts
Thursday, May 02, 2019 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2018-	-FQ1 2019-			-FY 2018-	-FY 2019-
	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	(0.82)	0.64	-	-	(0.16)	2.71
Revenue (mm)	(171.20)	555.86	378.34	(31.94 %)	1180.47	2278.79

Currency: USD
Consensus as of May-01-2019 5:18 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	(0.21)	(0.30)	NM
FQ2 2018	0.54	0.27	1 (50.00 %)
FQ3 2018	0.94	0.83	2 (11.70 %)
FQ4 2018	(0.82)	(1.01)	NM

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James Charles Zelter
Co-President, Managing Partner & Chief Investment Officer of Credit

Joshua J. Harris
Co-Founder, Senior MD & Director

Leon D. Black
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Martin Bernard Kelly
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Presentation

Operator

Good morning, and welcome to Apollo Global Management's First Quarter 2019 Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

This call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements. Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the company's website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Apollo fund.

I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
MD, Head of Corporate Communications, Client & Product Solutions

Great. Thanks, operator. Welcome to our first quarter 2019 earnings call. Joining me this morning are Leon Black, Chairman and Chief Executive Officer; Josh Harris, co-founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer and co-Chief Operating Officer. Three other senior members of our team are also participating on this call, including our co-Presidents, Scott Kleinman and Jim Zelter, as well as Gary Parr, Senior Managing Director. Scott, Jim and Gary will be available during the Q&A portion of today's call.

Earlier this morning, we reported distributable earnings to common and equivalent holders of $0.50 per share, which led to a cash distribution of $0.46 per share for the first quarter. The quarter's distributable earnings were primarily driven by pretax fee-related earnings, or FRE, of $0.51 per share.

With that, I'll turn the call over to Leon Black.

Leon D. Black
Founder, Chairman & CEO

Thanks, Gary, and thank you all for joining us this morning.

I'm pleased to announce this morning that after much consideration, Apollo has decided to convert from a publicly traded partnership to a C corporation, a decision that we believe will allow a much broader set of shareholders to participate in the exceptional growth trajectory that Apollo has demonstrated, not only since our IPO 8 years ago, but since our inception nearly 30 years ago.

As we've highlighted in the past, we believe Apollo's culture of excellence in conjunction with the strong secular trends across the alternative asset management industry have been the catalyst for meaningful growth across our integrated global platform. Since our IPO in 2011, we've grown our AUM at a 20% compound annual growth rate, and this quarter, we surpassed $300 billion in AUM.

We continue to grow our fee-related earnings, or FRE, at a similarly strong pace. And our FRE has been the predictable underpinning of the significant cash distribution to our shareholders, supported by solid margins and high levels of permanent and long-dated capital.

At the same time, the funds we manage have meaningful capital in the ground that should drive further cash generation as assets are monetized, all while continuing to invest in what we believe are attractive opportunities, setting a stage for future value creation.

We believe there are a limited number of companies in the public markets that have been able to generate the same pace and quality of growth as Apollo. And in our view, the modest tax friction that we expect

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to experience by converting to a C-Corp should be more than outweighed by the variety of benefits we expect to gain by moving away from our current partnership structure.

Throughout our history, we have prided ourselves on our relentless focus towards creating value for our investors, and we believe that converting to a C-Corp is consistent with that goal. We continue to believe our stock is a compelling investment opportunity at current valuations, and we hope that by converting to a C-Corp, we can reduce the barriers to owning our stock and close the gap between where we trade today and where we see intrinsic value for Apollo.

We analyze the variety of factors in reaching the decision to convert, and we believe there are a number of benefits, including: one, a simplified structure and the elimination of the K-1 form; two, an enhanced liquidity and the potential for reduced volatility for our stock; three, the potential for inclusion in a number of indices such as the [CRST], the MSCI and total market indices, which is particularly important given the increasing flow of assets into index and passive funds; four, as a C-Corp, we believe it will be easier for many new investors to own our stock; and finally, we have seen an increase in the valuations of our peers that have already converted or announced the conversion, and we believe that our conversion presents an opportunity for value creation for all of our shareholders.

We look forward to continuing this discussion with our current and prospective shareholders.

And with that, I'll hand it over to Josh for some additional thoughts around the conversion as well as our quarterly results.

Joshua J. Harris
Co-Founder, Senior MD & Director

Thanks, Leon. And let me also express my excitement for this significant step in Apollo's journey as a public company.

In conjunction with our earnings release, we also published some materials this morning related to our announced C-Corp conversion. I don't intend to run through each of the slide. There are a handful items I'd like to highlight in addition to the ones that Leon just discussed. First, in connection with the conversion, our dividend policy will remain unchanged. Capital return has been a cornerstone of Apollo's value proposition since we went public, and our shareholders have consistently expressed their appreciation for the ongoing quarterly cash flow.

Turning to the economics of the conversion at the corporate level. On a pro forma basis for 2018, the dilution to Class A shareholder cash earnings would have been approximately 5% if Apollo had been a corporation for the full year, given a year with low taxable income in our Incentive Business.

Looking at our cycle, as realization increase, we expect that dilution could be in the range of 7% to 9% per year. For many of our shareholders, we expect that the ultimate after-tax impact will be lower than the corporate-level dilution.

On an important note, the bulk of the tax increase will be driven by our performance fees, while the impact to our after-tax fee-related earnings should be minimal since our FRE is already taxed at the corporate rate. We believe that this is a -- is significant given that FRE is the most valuable component in the sum of the parts valuation methodology applied to our business. At the end of the day, we felt the argument for conversion was compelling, and we believe the impact to our financial results should be more than offset by increased investor ability to own shares in Apollo, among other benefits.

As we note on Slide 6 of the supplemental materials, share ownership of Apollo and its peers, among passive and index funds, average less than 1% for publicly traded partnerships versus nearly 7% for C-Corps, and this figure continues to grow.

We expect that the conversion will occur during the third quarter of this year.

Moving on to our results for the quarter, which highlights the continued growth and diversification across our business, I'd like to start with some comments around asset growth, which had consistently remained strong and has created a stable base for increasing management fees, and ultimately, fee-related

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earnings. During the first quarter, Apollo saw gross inflows of $25 billion, which included advisory assets from Fund IX's Aspen acquisition, assets from Athora's acquisition of Generali Belgium, flows from Athene, capital raised across various funds such as Hybrid Value and Total Return Fund and ongoing flows into managed accounts.

Over the past 4 quarters, gross inflows have exceeded $80 billion during a period in which we did not raise a flagship private equity fund over that time frame.

We have grown AUM by 22% to $303 billion. The robust level of asset raising we have achieved is consistent with the growth trends we've been able to demonstrate, not just over the past 3 to 5 years, but since our IPO 8 years ago.

Looking ahead, we remain confident in our ability to drive strong AUM growth across the platform, fueled by fund-raising among strategic capital initiatives and a variety of vehicles focused on strategy -- strategies such as natural resources, credit and real estate as well as managed accounts.

We have experienced particularly robust growth across insurance, which has been driven by a combination of internal growth, acquisitions and reinsurance transactions.

Over the last 4 quarters, Athene and Athora have contributed a total of $44 billion to inflows. In addition, our third-party fund-raising efforts, through the more traditional channels, has generated inflows of $15 billion over the last 4 quarters.

I would also like to highlight that following the segment changes, Martin will discuss further, our real asset business now has $32 billion in assets as of March 31, which is a strong reflection of the diversification of our investment platform and robust capabilities in real estate and infrastructure.

Turning to capital deployment. We had another solid quarter with $4.3 billion of capital invested across the Apollo platform. In private equity, our funds committed an additional $2.3 billion of capital in the first quarter.

We closed on our first investment for private equity Fund IX, Aspen Insurance, during the quarter. Fund IX also announced 2 additional transactions.

The acquisition of a number of TV stations and other assets from Cox Enterprises and the take-private of food retailer Smart & Final.

Hybrid Value just recently held its final close at approximately $3.25 billion, and we're pleased to announce that the fund is already 15% committed or invested, and the pipeline remains solid.

Our methodical and patient approach of embracing complexity combined with our ability to source and structure investments in a creative and flexible fashion has enabled our funds to deploy capital in what we believe are attractive opportunities. We continue to identify and evaluate an active pipeline of investments across a broad spectrum of asset classes, and we are optimistic about our ability to deploy capital at a solid pace.

As we said previously, we believe the valuation of Apollo is closely tied to our FRA, which is largely based on recurring management fees, which we view as predictable -- a predictable and growing component of our quarterly cash distribution. The strong AUM growth we've achieved in conjunction with a meticulous approach to cost control have together created the path for robust FRE growth that we have demonstrated through various market environments, with core FRE growing 17% on a compound annual basis over the past 5 years and margins which are in the mid-50s.

We expect to continue driving meaningful AUM and FRE growth across segments through organic capital raising and continued strategic capital initiatives. In addition, we've approximately $45 billion of dry powder, some of which will begin to earn fees as capital is invested, providing some visibility into FRE growth just from the AUM we have available across our platform today.

Going forward, we will remain focused on driving our FRE higher since it is a reliable source of cash each quarter regardless of whether we have any significant realization on the funds we manage.

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We declared a $0.46 per share cash distribution during the quarter, bringing the total cash distribution over the past 4 quarters to $1.91 per share, despite light realization activity over that period.

Lastly, before I turn the call over to Martin, I want to mention we'll be hosting an Apollo Investor Day on November 7, where we will be providing our current and prospective shareholders with an update on our strategic objectives and growth expectations over the coming years and showcasing the deep bench of talent we have here at Apollo. We hope to see you all there.

Martin Bernard Kelly
CFO & Co-COO

Thanks, Josh, and good morning, everyone. In addition to this morning's C-Corp news, our earnings presentation issued earlier today reflects some changes which were made in order to simplify our reporting and make it easier for investors and analysts to interpret our results.

We also made some changes at the segment level as we have re-categorized certain assets and their associated income and expenses among segments to better align our reporting with the way these businesses are now being managed under Scott and Jim.

Turning to our results, starting with distributable earnings. The $207 million or $0.50 per share we generated during the first quarter was driven primarily by fee-related earnings. Pretax fee-related earnings of $210 million or $0.51 per share were complemented by a modest amount of realized performance fees and realized investment income, principally generated by monetization activity in private equity.

FRE declined by 18% versus the prior quarter, but grew 58% versus the first quarter of 2018. The lower quarter-over-quarter FRE was driven primarily by lighter transaction and advisory fees. However, we continued to grow our base management fees, which increased 4% versus last quarter and 32% versus the year ago quarter.

Advisory and transaction fees of $19 million in the quarter included co-invest fees related to Fund IX's Aspen transaction.

As a reminder, transaction fees can be variable on a quarterly basis since they are generally tied to the pace of capital deployment. However, for the last 3 years, transaction and advisory fees have been over $100 million annually. And as Josh highlighted in his remarks, we remain confident in our ability to put money to work with the value [IRA bias], despite generally elevated market values.

I also want to note that as of the first quarter, we are recognizing management fees from Athene under the terms of the proposed amended fee arrangement. As we have noted previously, we believe the revised fee arrangement we announced together with Athene in last September maintains the strong alignment of interest that has endured since Athene was founded more than a decade ago.

There is no meaningful near term financial impacts under the proposed amended fee arrangement as compared to the previous arrangement. But under the revised arrangement, Apollo will now earn a base management fee and a sub-allocation fee as opposed to a base management fee and sub-advisory fees under the prior arrangement.

We have presented some new disclosures in connection with the revised arrangement on Slide 10 of our earnings presentation.

As a reminder, we have moved to a focus on distributable earnings or DE as our primary earnings metric, as we feel this better represents our underlying operating performance and how we manage the business. However, as you saw in our earnings release from this morning, we continue to disclose pertinent information related to returns by strategy and accrued performance fees in order to provide our shareholders with what we believe is the most complete view of performance across the Apollo platform.

Our net accrued performance fees balance grew 12% in the quarter, supported by positive marks across our credit, private equity and real estate businesses.

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In private equity, the public markets rebound in the quarter drove 16% appreciation in our funds public portfolio companies, combined with positive mark-to-market of 2% for the funds private portfolio. Our aggregate private equity funds appreciated by 4.6% during the quarter.

In credit, we also participated in the rebound experienced across credit markets during the quarter, with positive performance across the funds we manage in corporate credit, structured credit and direct origination. We believe our patient and thoughtful approach to investing, in conjunction with our ability to deploy capital quickly when the opportunity arises, helped our funds perform well over the past 6 months, a period during which there was significant market volatility.

In times of market dislocation, we believe our integrated platform and expertise in navigating various parts of the credit risk spectrum are important competitive advantages, particularly as our business model affords us meaningful liquidity and patience to invest for high-net transactions.

Finally, in real assets, the aggregate appreciation across the portfolio was 4% for the quarter and 6.7% for the 12 months ended March 31, and this segment continues to perform well.
With that, we'll now turn the call back to the operator and open the line for any of your questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

So maybe just to get the C-Corp conversion questions out of the way and some of the cleanups, can you guys just walk us through what the effective tax rate is going to be on the business now, maybe starting 2020 as kind of the first clean year and how that's going to evolve over the next couple of years? I know you kind of talked about dilution, but just in terms of the actual tax rate.

Martin Bernard Kelly
CFO & Co-COO

Yes, sure, Alex. It's Martin. So over the medium terms through the cycle, we would expect the blended cash tax rate to be in the range of 16% to 18%, and that reflects both the -- what it's today, the blocked and the unblocked pieces. Most of the increase in the tax costs and the dilution is being incurred on the carry and balance sheet side of the house with just a modest uptick on the FRE tax rate.

Operator

Our next question comes from the line of Michael Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Just on the FRE growth and the asset growth, it's been strong over the years. The realized performance fee is, obviously, a bit lighter this quarter, but in the outlook, you got the higher net accrued performance fees. You guys show the incentive-generating AUM growing. So maybe just some color on the portfolio progress in the outlook on the realized fees. I know it's tough to predict, but just given where things are situated.

Scott M. Kleinman
Co-President & Lead Partner of Private Equity

Sure, sure. So as I've said in prior quarters and it still remains true, the fund continues to build value. 2019 realizations will exceed 2018 realizations. And our big flow years will be '20 and '21. So yes, I mean, nothing's really different from what we previously said, continuing to sort of build value there in the private equity business. Obviously, some of that's going to be market-dependent and -- but for the most part, continuing to build value in the funds.

Joshua J. Harris
Co-Founder, Senior MD & Director

I'd just add the average investment is about 3 years old. So it's starting to mature but still a little early in the fund's life.

Operator

Our next question comes from the line of Bill Katz of Citi.

William R. Katz
Citigroup Inc, Research Division

Congrats on the conversion. Just maybe on margins. You have a really strong FRE margin this quarter, and you have just -- it seems like a ton of momentum on the AUM side and the fee rate side. How should we be thinking about the trajectory now for the FRE margin as you look at it over the next 12 to 24 months?

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Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, I mean I think -- we continue to think that there's some operating leverage left in the business. Obviously, we made a lot of headway, and I don't think that sustainably we can kind of keep -- continue to -- we don't continue to think that, that type of increase is going to continue to happen, but we feel like margins are sustainable and going up a little.

Martin Bernard Kelly
CFO & Co-COO

Yes, and I'd just say, we're really pleased with the progress we've made over the last number of years. And we're now -- we're balancing, investing in the platform with future revenue growth. And oftentimes, the cost comes before the revenue. So that's the balance that we work through, and we're pretty confident about that.

Operator

Our next question comes from the line of Devin Ryan of JMP securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Congratulations on the conversion announcement. A question here just on PE deployment. So it feels like there's a lot in the hopper right now. You've invested, I think, $1.6 billion in Fund IX. It sounds like a pretty healthy pipeline. So I don't want to get, I guess, too far ahead of ourselves here, but can you maybe just give a little more granularity on kind of deployment expectations there? And then kind of the scenarios for maybe even being in the market for Fund X just based on how quickly you're kind of moving on Fund IX?

Scott M. Kleinman
Co-President & Lead Partner of Private Equity

Sure, sure. So as Josh alluded to in his comments, we do have a number of deals that are pending to close and should be closing in the coming 1 to 2 quarters. From a continued deployment, our teams are quite busy, as we've said in the past, it's a tricky environment, and we're remaining very disciplined on the investments we do make. And it's inherently like unpredictable, and so I'd hate to really try to pinpoint exactly how fast deployment is in any quarter or even in the next 12 months. As far as Fund X, I think it's premature to be talking about exactly when that will come. As you guys know, we're incredibly opportunistic, and so when opportunities arise, we will lean aggressively into them. And when conditions aren't right for what we're looking for, we'll pull back. So I think it's tough to sort of give a very detailed quarter-by-quarter flow, but the -- I'll end with the deal teams are quite busy. There's a lot of stuff to look at.

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, so we're approximately 15% committed in IX. And our pace has been, on average, plus or minus $5 billion a year. So with -- so if you think about that, it gives you some context, but it -- as to how you might think about Fund X, but the reality is that it's going to be market-dependent. If you back out 5 stocks, the fangs, the market is trading below 15x, and the economy is healthy, and so there's good value opportunity right now. Financing markets are open. So we're going to try to continue to do our thing.

Leon D. Black
Founder, Chairman & CEO

The only thing I would add is that there's been a very little on the distressed side over the last 5 years in the funds. When you look at Fund VII, 2/3 of it was in distressed fund date, it was less than 5%. Your guess is as good as ours, but we're in the 11th year of a recovery. And probably with a reasonable probability somewhere during Fund IX's life, there's going to be a heavier emphasis on distressed. And

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when that window opens, there should be a lot more capital deployment in that area. And clearly, one of the activities of the PE team right now has been to be reviewing literally many hundreds of companies in the industries that we pay a lot of attention to and where we want to be in the capital structure and at what prices. In some industries, we're getting closer, but not quite there. In others, not. But clearly, that's a component that has not been active for the last 5 years, but somewhere in the next 2 or 3 years may become a lot more active.

Operator

Our next question comes from the line of Glenn Schorr of Evercore.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Obviously, with all the growth being put -- produced from the insurance and credit sides of the business, I have a question on the debt -- your view on debt markets, maybe a public versus private valuations competition structuring, things like that, where do you see value because $900 million of capital deployment in the quarter is okay, but a plenty of dry powder and a lot of growth coming there. So curious where you see value as it relates to how much we can expect deployment there?

James Charles Zelter
Co-President, Managing Partner & Chief Investment Officer of Credit

Sure, Glenn, this is Jim. Certainly, we were active in the fourth quarter when we had the opportunity when the market sold off, and there was opportunity in the liquid markets, leverage loans, in particular, and structured credit. In terms of the most recent quarter it's more -- it's in these numbers. We participated in the rally, and for the most part, there's probably a little bit better value in the private markets right now than the public markets. We've continued to hone our business and grow our business very well in MidCap. MidCap continues to grow. And as you know, that's all senior secured assets with covenants. And those companies in that portfolio grew 13% last year. So we're finding opportunities in MidCap and direct origination in our business. Scott mentioned that we've done 3 investments in Hybrid Value to date. And certainly, we're also finding opportunities in our bespoke opportunities in structural credit in our real assets business. So for us right now we -- we're not macroeconomists, but we suspect the environment that Scott and Leon and Josh have described. It's going to continue through the rest of the year. Lower rates, probably muted inflation, look forward to opportunities with market dislocations, but we probably prefer private opportunities than public.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Got it. If I could, on Slide 10, I like the bottom right of the slide where you give the Athene and Athora AUM breakdown. Could you give just some examples of which assets fit into which of those buckets? And importantly, which ones drive the higher fees for Apollo?

Joshua J. Harris
Co-Founder, Senior MD & Director

You're off with maybe Slide 10.

Martin Bernard Kelly
CFO & Co-COO

Yes. So I'll start. So the yield assets on higher alpha assets include real estate lending, mezz lending and sort of the yieldier assets. And then as you work your way up, you get into CLO liabilities and a range of other sort of mid-market-type lending exposures. So -- and the range on the fees there, which we've disclosed previously, goes -- there's a large range around that. So it's 6.5 bps at the bottom end up to 70 bps at the high end. And that just reflects the yield profile of the assets that we're investing on, on behalf of Athene.

James Charles Zelter

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Co-President, Managing Partner & Chief Investment Officer of Credit

Yes. Just to provide a little bit more color. The core assets are your investment grade, public and private book. Your core-plus assets are some of your mortgages, your mortgage versus mortgage paper. Your yield assets are your -- in real estate, your senior mezz, and the higher alpha may be some things like a variety of CLO equity and CLO liability, so along the risk curve and along the liquidity curve as well.

Operator

Our next question comes from the line of Gerald O'Hara of Jefferies.

Gerald Edward O'Hara
Jefferies LLC, Research Division

I guess just actually staying on Slide 10 for a moment. Perhaps you could touch a little bit on the growth outlook for Athene and the Athora business. And then to the extent you have any visibility or perhaps even preference, how do you think these asset-allocation buckets might look several years down the road?

Gary W. Parr
Senior Managing Director

It's Gary. Just from an industry point of view, part of the overlay of the fill in, but it's similar to where we've been 2 years ago. We see a number of opportunities, we continue to be active in the -- looking at these opportunities. Interestingly, as things advance, one is stable and that is the pressures on the insurance industry are about the same today as they've been over the last few years, low interest rates and a lot of big companies needing to reposition within their portfolios by geography or by line of business. So that exists. There are more financial sponsors that are buying simple annuity blocks. Interestingly, there are still very few strategic buyers in the insurance industry, so we don't run into that type of competition. And as you will recall, what we really focused on is our comparative advantages, and those are 2 things. One is really trying to understand the insurance industry and a lot of verticals within insurance. We're now operating in 6 different verticals of the insurance industry in Europe and the U.S. We have about 150 people working in insurance and financial services. And so that area, we think we have a comparative advantage to deliver solutions. On the second side, that's equally important. We've even continued to build out the investment capability for insurance company balance sheets, and we think we have a comparative advantage there. We can add enhanced yield for similar risk, and we know the regulatory landscape for both NAIC and Solvency II. And as we build out those capabilities, that plus our insurance expertise, we're -- and just as actually Scott alluded to and Leon in the private equity, on the insurance platform side, we are in a number of active dialogues. When the timing will be, how it'll come out, we never know. But the flow is as good today as it was 2 years ago, and in that subsequent period, we found ways to get things done.

James Charles Zelter
Co-President, Managing Partner & Chief Investment Officer of Credit

I would just add on the asset-allocation side, I wouldn't expect with growth to see a dramatic change in the large buckets. We're talking about monetizing and trying to get incremental basis points out of various assets, but the core structure of the Athene portfolio, the core structure of the Athora portfolio, there's going to be some changes around the edge, but they're not going to be dramatic shifts in the buckets as you model the business.

Operator

Our next question comes from the line of Robert Lee of KBW.

Robert Andrew Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Congrats on pulling the trigger on the conversion. Can you maybe just update, so we haven't heard much about it in a while but with a little bit solid fundraising and credit and, obviously, Athene and Athora, but kind of what you're seeing in the strategic separate account area? I mean I know you had a bunch of

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success with that. Going back, is that still -- is that part of the fund flow? I mean maybe any update there would be helpful.

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, look, I mean, obviously, the investors now, particularly larger investors want customization, customized reporting, customized -- particularly in credit, customized risk allocation among various asset classes and geographies and so. Certainly, that is -- credit is growing. It grew at 14% over the last 4 years. And there's definitely -- I can't tell you -- that's a faster-growing segment in credit.

James Charles Zelter
Co-President, Managing Partner & Chief Investment Officer of Credit

Yes, and I would just add, our focus last year, when you think about the margin contribution of a commingled fund versus an SMA, we -- our focus last year was on Hybrid Value, which was very successful for us. We're going to continue to add SMAs in the size and scale that make a difference for us. But certainly, we have -- if you look at our SMAs as a percentage of our AUM in actual raw numbers, it's around $25 billion. So we think that's a -- we were a leader early, and we've continued to keep a dialogue, and we will do so. But we're going to make sure we focus on the commingled fund, the sizable, scalable commingled fund as well.

Joshua J. Harris
Co-Founder, Senior MD & Director

And you just want to give investors the way to express their view in whatever structure they want or feels right for them.

Operator

Our next question comes from the line of Patrick Davitt of Autonomous Research.

Patrick Davitt
Autonomous Research LLP

Scott, I want to go back to the discussion on the kind of realization outlook. Just curious if that view that 2019 will be better than 2018, is it just kind of a view of the volume of realizations? Or do you think the cash flow from realizations can be higher than 2018? And within that, could you frame the completed and announced pipeline of sales expected to come through over the next couple of quarters?

Scott M. Kleinman
Co-President & Lead Partner of Private Equity

Sure, sure. And so again, I'll start with the caution of all market-dependent. But to answering the first part of your question around what's coming down from a monetization standpoint. Yes, look, I think that's ultimately based on our bottoms up build of what's coming to maturity. What dividend recaps we're aware about? What expected exits that -- where companies are now ready to be exited? We have things that have been in the press to -- that are on their way to -- should be starting their exit. So I'm not going to name specific names, but -- so it's from a -- it really is a bottoms up build based on when these companies are -- we've created the value, we are going to create in these companies and are now moving to an exit path.

Operator

Our next question comes from the line of Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

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So just given that Athene's balance sheet is now $114 billion, I'm just wondering how challenging is it to help Athene find, which I think is $30 billion plus of new assets a year? And also within that, also help Athene migrate its balance sheet into 1/3, which I think you guys label as differentiated assets?

James Charles Zelter
Co-President, Managing Partner & Chief Investment Officer of Credit

So if you take a step back, if you look at the core balance sheet now that we're over $100 billion, we have about 35% to 45% allocation to core investment-grade public and private. So the work horse of the vehicle is what's going on in the IG market. We have a leading position in that spot as well as the private placement market. But to your question, it's success in a variety of areas. It's success not only in structured credit, commercial real estate debt, which we really have no CMBS but all CRE origination. And then certainly, on the residential side as well as a variety of structured vehicles like MidCap and Amerihome. So it's the combination of all those that contribute, our focus is still at Apollo to create more direct origination vehicles that we've done in aviation in the last 18 months. And there's a variety that are in the R&D lab to help them out. But our focus to them is obviously a primary focus. And we feel very comfortable that the M&A pipeline that Gary mentioned earlier that we're very comfortable in our ability to add incremental basis points returns. And again, it's been public with all the Athene numbers. We're not talking about hundreds and hundreds of basis points of margin. If you look at the historic outperformance we've done versus other insurance companies, it's averaging that 40 to 50 basis points. So it's a lot of large numbers and doing it day in and day out. And we feel very comfortable in our ability to continue to do so.

Joshua J. Harris
Co-Founder, Senior MD & Director

I mean the size -- the $115 billion, by the way, the size of the AUM is actually, in many cases, an advantage. I mean I'd just point out, organically, just through distributes/significant/reinsurance/institutional. Athene is growing relatively healthy -- in a relatively healthy way. And on top of that, we're finding that our ability to -- next to Berkshire Hathaway, we have the largest -- largest amount of permanent capital out there in this business. And that becomes an advantage relative to helping other strategic players solve problems that other people really can't deal.

Leon D. Black
Founder, Chairman & CEO

And the macro opportunity is still very compelling. Yes, there are other players in the playpen are trying to get into the playpen, and that's fine. Some competition is healthy, but the macro picture is we see over a trillion dollars of opportunity on the life side and probably half that on the PNC side. Gary mentioned we're now in 6 different insurance platforms. And maybe -- there's been a reasonable amount of underperformance across the industry, given low rates and a lot of companies have used whatever cash they had for stock buybacks, for dividends and there's a dearth of capital now and the need for many of these big companies to sell off nonperforming assets. So hopefully, we will get our share of the targets that we're interested in. But we feel pretty sanguine and optimistic about the opportunity, especially given the platform we've built and the team we've put together.

Operator

Our next question comes from the line of Chris Harris of Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

I just want to follow up on an earlier question about the tax rate. Once the conversion goes into effect, should we be expecting an immediate step up in the 16% to 18% range? Or will it be kind of the phased-in ramp up? And the reason I ask that question is I believe with some of the other offset of convert, it's been more of a phased-in type thing.

Martin Bernard Kelly

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CFO & Co-COO

Yes. I'm going to get past this year because it'll be a split year, and -- but once we get into 2019, I would expect that -- because carry is being taxed for the most part where it wasn't previously, that will be fully reflected. And so that will get us into that range in the near term.

Operator

Our next question comes from the line of Michael Cyprys of Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

Can you hear me now?

Leon D. Black
Founder, Chairman & CEO

Yes

Martin Bernard Kelly
CFO & Co-COO

Yes.

Michael J. Cyprys
Morgan Stanley, Research Division

Okay. Great. Sorry about that. So on fee-related earnings, you guys have touched some impressive growth over the past couple of years and since your IPO, 17% past 5 years or so. I guess what's the right level of fee-related earnings growth that we can expect over the next couple of years and then also longer term? And then on the FRE margin itself, 55%, how do you think about the upper bound on the FRE margin? And if you were in a couple of years from now and it's below 50%, what would have happened?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, so first of all, if you think about the AUM growth, right, I think our business grows at double-digit. And then it just -- that's historically what it's done just organically. And then you've got things like Athora or acquisitions, what I call the R&D lab, and we just come up with the insurance platforms themselves, and the ramp of Athora has gotten us to, in the last 5 years, 15% AUM growth. So even if that caught -- so I think in that range, the double-digit going up to 12, 13 even, you're going to get from operating leverage into the numbers. And so you're getting that 17% growth, which is in excess of your revenue growth. And so I think that, that's likely to continue, plus or minus. In terms of the upper -- I mean I don't see the margins going -- we have industry-leading margins, and I think that it's hard to see the margins going into the 60-plus percent range. So I think if you think about the mid-50s going into the high 50s, that feels like the right answer. And the reality is that the way the business works, it's you build the teams and then the revenue drops. But we tend to reinvest that. We don't reinvest every last -- we don't -- sorry, distribute every last dollar of that operating leverage. We try to reinvest in a platform. We're investing a lot this year in new teams and new products. So we can keep that growth going, keep that AUM growing. And last thing I would say, just -- so you start with the double-digit and then you do some different things. And the last thing I'll say is that we have a fair amount of uninvested capital and credit where the fees turn on as you invest. And so that could add. If we find good investment opportunities, that could add 200 or 300 basis points to our fee-generating AUM. And so we often talk about AUM, but the fee-generating AUM is really what pays the bills.

Martin Bernard Kelly
CFO & Co-COO

And obviously, I will answer the last part of your question, which is what would've happened if margins dropped below 50%? I don't anticipate that being a scenario. I think we have a highly durable

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management fee stream, which we're anchored by permanent capital and with little duration to it. And so no matter what the markets do, there's just not much volatility to the management fee stream. And our costs are highly manageable, and we pay a lot of time and focus and attention looking at that. So there could be a one-off nonrecurring-type cost that would temporarily drop it, but on a sustained basis, I don't see that as a scenario, we certainly don't plan for that.

Operator

Our next question comes from the line of Bill Katz of Citi.

William R. Katz
Citigroup Inc, Research Division

Just a follow-up question. I know, Josh, you mentioned that there's no change in the dividend policy. But looking down the road a little bit, I was just sort of curious, you have a pretty set yield right now on a highly visible earnings stream, right? Pretty adorable business model. Is there an argument you made to actually lower the dividend a little bit? And think about a different type of capital deployment that might catalyze more of S&P-type yield on that residual dividend, have you thought that through?

Joshua J. Harris
Co-Founder, Senior MD & Director

First of all, Bill, we do have a fat yield. So I'm glad you noticed. We certainly know this. Look, I mean we're always thinking about how to maximize total shareholder returns. And so we're always exploring various things. At this point, we saw it. We think a tremendous amount of our dividend policy. At this point, we feel like the distribution policy is appropriate. We're always looking at things that might enhance the value. And if we were to be convinced that changing the dividend -- and we do have investment opportunities, but right now, we're convinced that we have a heavy [year] model, generates a lot of cash flow, and we're capital light. And we don't -- there's no need to retain the capital. We're obviously well-rated. We don't have a lot of leverage, and so we feel like the right thing to do right now is to pay it out. If there was to be some amazing opportunity where we would feel that the market would value us in a better way. If we -- if it stopped paying out, we would do that. But that's not how we feel right now.

Operator

And ladies and gentlemen, we have time for 1 more question. Our final question will come from the line of Michael Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Martin, just one follow-up on the C-Corp conversion. The dilution is better than expected, and I think what you guys expected in prior quarters. Just curious, what drove that? And then is that for common? Or is it for the -- for overall?

Martin Bernard Kelly
CFO & Co-COO

It's for overall. Well, it's the total cash dilution to a shareholder across all parts of the structure. And the reason it came down from what we -- we suggested a year-plus ago some comments based on ENI then. And I think what's changed since then is that we've incorporated a tax benefit from a 754 Election in the numbers. And our FRE mix relative to carry continues to increase. And so I think that, over time, has reduced the dilution that you expect to see.

Operator

And that concludes the Q&A portion of today's call. I will now return the floor to Gary Stein for any additional or closing remarks.

Gary M. Stein
MD, Head of Corporate Communications, Client & Product Solutions

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Great. Thanks, everyone, for joining us this morning. I'll remind you, again, to save the date for November 7 for our Investor Day. We look forward to speaking with you again soon.

Operator

Thank you, ladies and gentlemen. This does conclude Apollo Global Management's First Quarter 2019 Earnings Conference Call. You may now disconnect, and have a wonderful day.

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