S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

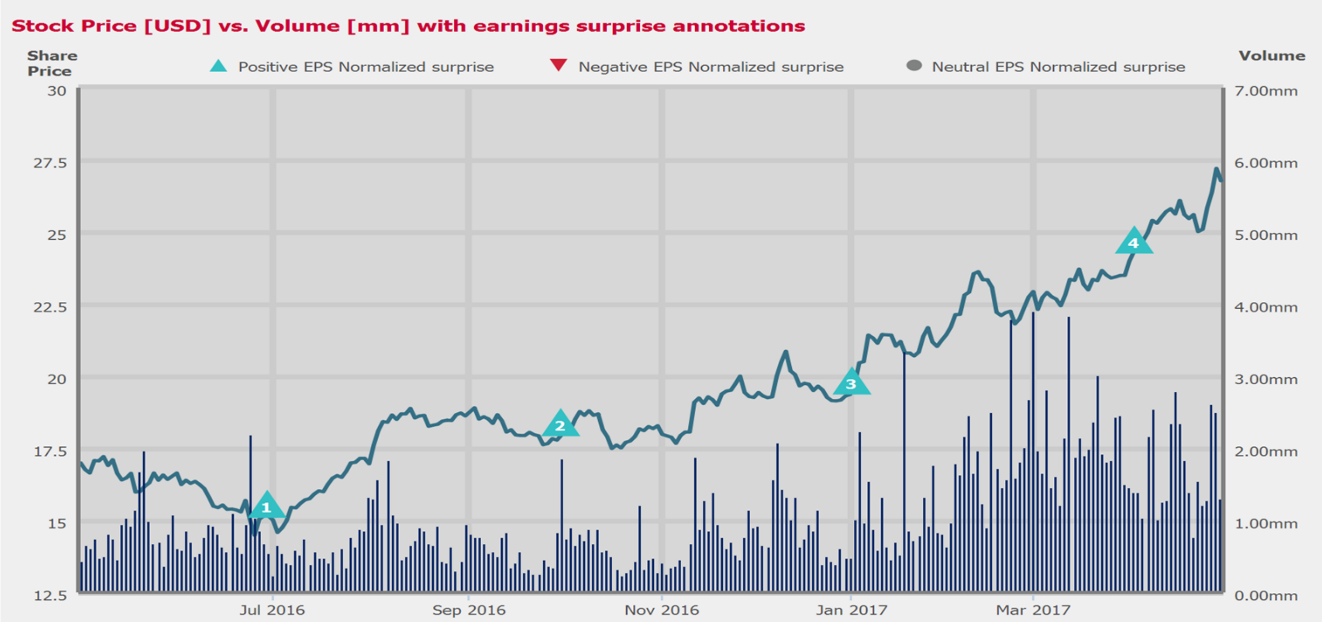
FQ2 2017 Earnings Call Transcripts

Wednesday, August 02, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.49	0.46	(6.12 %)	0.56	2.48	2.81
Revenue (mm)	449.32	418.80	(6.79 %)	536.31	2292.84	2565.24

Currency: USD
Consensus as of Aug-01-2017 5:06 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.20	0.98	1 390.00 %
FQ3 2016	0.46	0.58	2 26.09 %
FQ4 2016	0.80	0.98	3 22.50 %
FQ1 2017	0.64	0.82	4 28.12 %

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2017 Second Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Great. Thanks Operator. Good morning everyone and welcome to our second quarter 2017 earnings call. Joining me today from Apollo are Leon Black, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer.This call includes forward-looking statements and projections, including with respect to future distributions by the company, and these statements do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We'll be discussing certain non-GAAP measures on this call, which management believes are relevant to assess the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our earnings presentation, which is available on the Apollo website. Earlier this morning, we reported non-GAAP economic net income or ENI of $0.46 per share for the second quarter ended June 30th, 2017 including $0.34 per share of fee-related earnings or FRE. Apollo also reported distributable earnings to common and equivalent holders of $0.60 per share driving a cash distribution of $0.52 per Class A share.If you have any questions about the information provided within the earnings presentation or on this call, please feel free to follow up with me or Noah Gunn.With that, I'd like to turn the call over to Leon Black, Chairman and Chief Executive Officer of Apollo Global Management.

Leon D. Black
Founding Partner, Chairman & CEO

Thanks Gary, and thank you all for your continued interest in Apollo. This call provides us with an opportunity to highlight our achievements through the first half of 2017 including our strong second quarter results. First, I'd like to provide some commentary regarding our significant asset growth and opportunities we see for continued capital deployment. Josh will then provide you with details regarding our investment performance and he will also describe the increasing earnings power of our business. Martin will conclude our prepared remarks with some brief comments regarding Apollo's financials before we take your questions.First and foremost, we believe the combination of our strong investment performance and the depth of our relationships with prominent investors worldwide are the primary catalyst of Apollo's continued asset growth. In addition, we believe we are benefiting from several secular tailwinds in the asset management industry including, 1, a search for yield in a persistently low rate environment; 2, the consolidation of relationships among the most successful asset managers with broad product sweeps; and 3, the migration away from traditional active equity and fixed income strategies to a more barbelled approach oriented towards passive and alternative strategies. We have now surpassed $230 billion of total assets under management and our integrated platform is serving us well as we drive the business forward through our traditional fundraising efforts and strategic capital initiatives. The second quarter marked one of the most significant asset-raising periods in our history as we generated nearly $36 billion of gross inflows which included $24 billion for private equity and $10 billion for credit.In private equity we're pleased to report that our newest flagship fund Fund IX received widespread support in the marketplace and demand well exceeded the fund's hard cap. Fund IX has $24.7 billion in total commitment including $1.2 billion from Apollo and affiliated investors. At nearly $25 billion Fund IX is the largest dedicated private equity fund in history. Fund raising efforts began last December and our team worked quickly amid robust demand to fully allocate the fund in just 6 months. This fund is significant to Apollo for a number of reasons. First, the $24.7 billion Fund IX is approximately $6 billion larger than its predecessor.Second the economics to Apollo for Fund IX are considerably better since we did not need to provide as many management fee discounts. As Josh will describe in more detail, Fund IX will help drive approximately $200 million of incremental annual management fees to AGM once it turns on 4 to 6 months from now. And third, the non-economic terms such as the recycle provision of Fund IX are enhanced relative to Fund VIII. We believe the success of Fund IX reflects the strength of Apollo's investor relationships and outstanding track record of 39% gross and 25% net annual internal rates of return since inception in 1990 in this asset class. We're tremendously appreciative of the trust and confidence our global investor-base has bestowed upon us and we'd like to share few of the key statistics regarding the composition with the Fund IX investor-base.In total, there are approximately 350 investors in Fund IX representing a diverse mix of investor types. The re-up rate across funds remain high as investors representing more than 85% of Fund VIII third-party capital made commitments to Fund IX. We are seeing the secular GP consolidation trend that work as approximately 60% of the investors in Fund VIII recommitted to Fund IX did so at a higher amount representing total incremental capital of $4.5 billion. Nearly 15% or $3.5 billion of Fund IX's third-party commitment came from investors that are entirely new to the Apollo platform signaling our continued ability to expand our investor-base and their appreciation for our strong private equity track record and capabilities. The composition of Fund IX also reflects the expanding geographic footprint of our fund investor-base. By way of example in Fund 5, our 2001 vintage fund, 22% of the capital was committed by non-U.S. investors.For Fund IX, a remarkable 62% of the capital came from investors spread across more than 40 countries being on the U.S. This is a significant milestone for our franchise and evidence of the strength of the Apollo brand and reputation within the global investment community. As we continue to deploy approximately $2 billion of remaining available capital in Fund VIII and look ahead to building a new portfolio in Fund IX, I'd like to reflect on where we were less than 4 years ago. When we completed fund raising for Fund VIII in late 2013 with $18.4 billion in commitments, it was also one of the largest private equity funds ever raised. And at the time, we feel that the obvious question, how are you going to put all that capital to work? Well, sitting here today, I'm proud to say that in just 3.5 years we've invested or committed nearly 80% of Fund VIII in what we believe are very attractive opportunities. And the fund is off to a great start with gross and net IRRs of 26% and 16% respectively and that's within average fund of less than 2 years duration.Most importantly, despite the high price environment in which we have been operating for the last few years, we've been able to create Fund VIII at an average enterprise value to EBITDA multiple of approximately 5.7x in a market where the average private equity deal multiple is nearly double that at 10.5x for deals over $500 million. It's interesting to note that we have been particularly active within the public markets and over the last 18 months our private equity funds have completed or announced take private transactions of 8 public such as ADT, Rackspace, Outerwall and Diamond Resorts among others. During this time-frame, we have committed or deployed nearly $9 billion of private equity capital, 70% of which was allocated to Fund VIII public to private deals.So when we begin deploying Fund IX later this year or early next year, we expect to use the same value-oriented approach that has lead to our best-in-class leading performance over the last 27 years. We will continue to rely upon the multiple pathways we have developed to source deals and deploy capital including opportunistic buyouts, complex carve-outs and distressed for control transactions. We believe we possess several competitive advantages that enable us to source and complete transactions, including, 1, a willingness to embrace complexity; 2, a proven ability to creatively finance transactions in a variety of market environments; and 3, the significant scale of Fund IX which will allow us to commit to larger investments.Since founding Apollo nearly 3 decades ago, we have traversed 4 economic cycles and we've demonstrated time and again the ability to successfully navigate the environment at hand. While we do not have a crystal ball to predict the investing landscape over the coming years, as we invest Fund IX, we're confident that we have an excellent team and a proven investment process which we believe will continue to guide our decisions and produce strong returns for our fund investors.Turning to Credit for a moment, we generated more than $10 billion of inflows during the quarter. These inflows where once again led by the ongoing growth of our strategic capital initiative which added $6.5 billion of assets this quarter. In addition, there were approximately $3.5 billion of other third-party inflows as we continue to scale existing products. More specifically, during the quarter, inflows included $3.7 billion of assets from Athene, primarily driven by growth as well as marked to market gains on Athene's portfolio. We raised $2.5 billion for our European insurance initiative or AGER -- A-G-E-R, which has been established by Apollo and Athene to acquire or reinsure blocks of insurance business in the European life insurance market where we believe there is a large need for capital. As we mentioned previously, this venture is in the early stages and we are optimistic about its growth potential over time.Within Drawdown funds, we are raising larger successor funds for several strategies including EPF and FCI. Total capital commitments for EPF III, the third vintage of our European principal finance strategy, now exceeds $4 billion, following an additional $600 million that was raised during the quarter and another $800 million that was raised in July. And FCI III, the third vintage of our life settlement strategy, has total commitments of $1.9 billion, following a $500 million close during the second quarter and a final close of $1 billion in July.And finally, the total return fund, which is an evergreen fund focused on unconstrained corporate credit, generated $800 million of inflows and continues to grow nicely. In addition to the fund, total returns is also attracting interest in managed account form and during the second quarter there was nearly $1 billion of incremental subscription for managed accounts pursuing this strategy. As of June 30th, the total return strategy had $4 billion in total assets.Before handing the call over to Josh, I'd just like to convey our optimism about the future of our business. I believe we are extremely well-positioned as a leading global alternative investment management franchise that continues to get bigger and stronger, which is a direct reflection of the great work being accomplished by our deep venture talent across the firm. We are maintaining our investment discipline in pursuit of outstanding returns and we continue to expand the capabilities of the platform, which we believe will ultimately accrue to the benefit of fund investors as well as shareholders. Josh?

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

Thanks Leon. I'd like to continue the call by offering some perspective on our investment performance and our growing earnings power. The funds we manage delivered solid results across each of our businesses during the quarter. On a gross basis, Private Equity was up 1.9%, Credit was up 2.1% and Real Estate was up 5%. The 1.9% appreciation in the private equity funds we manage was driven by strong performance among our funds private equity -- private portfolio company holdings, partially offset by 9% decline in energy holdings, largely due to declines in energy pricing during the quarter. If we excluded energy related investments from the private equity funds in the second quarter, the funds would have been up 5.2%.Importantly, we are seeing continued momentum from Fund VIII, which appreciated 4.4% during the quarter, despite energy headwinds. As Leon mentioned, at the end of the second quarter this fund had gross and net IRRs of 26% and 16% respectively and the average whole period of the investment to-date is still relatively young and under 2 years. So we remain optimistic around additional value creation and future carry generation from this portfolio.In Credit, the investment performance of the funds we manage was solid during the quarter, up 2.1% on a gross basis and up 1.8% on a net basis. Volatility in the energy markets had a negligible impact on credit performance during the quarter, similar to what we observed in the overall energy credit market. If we look at some of the core strategies within our credit businesses, our Drawdown funds generated gross and net returns of 3.6% and 3.2% respectively during the quarter driven by the strength in our European principal finance and structured credit recovery funds.In Real Estate, which you'll see we've re-titled Real Assets to reflect the broader opportunity we see in this arena longer term, our U.S. equity funds appreciated 5% during the quarter on a gross basis and continued to perform well with net IRRs in the mid-teens. By continuing to deliver strong investment performance across our businesses, we are able to raise ever larger flows of capital which allow us to evaluate a larger and more diverse set of investment opportunities, while driving increased earnings power for Apollo. We've experienced significant growth in fee-related earnings or FRE, which is the most stable and predictable earnings stream of our business. During the 12 months ended June 30, we generated $553 million of FRE or $1.35 per share, more than a twofold increase from just 5 years ago.Our growth in FRE has been driven by the increasing scale of our fee-generating assets, which have grown by a compound annual growth rate of 16% over the last 5 years. Asset growth has been augmented by an ongoing focus on efficiency and cost discipline which has resulted in significant operating leverage and margin expansion across our platform. Importantly, we expect a meaningful increase in fee-related earnings with the arrival of Fund IX. Upon commencing its investment period, which we currently expect to occur around yearend, Fund IX will add slightly more than $200 million of annualized management fees, net of the step-down in Fund VIII and the cessation of management fees from Fund VI in January.We expect the addition of these revenues to result in approximately $0.50 per share of annualized accretion to fee-related earnings, representing a 37% increase to our reported FRE over the past 12 months. We are pleased to report that the step function in FRE for Fund IX along with continued growth across the Apollo platform will allow us to lever a net minimum cash distribution of $1.30 per share on an annualized basis and we expect this level to grow with our business over time. This reflects a significant increase from the minimum of $1 per share in annual distribution to shareholders that we have been indicating over the last 2 years.This baseline distribution does not include any FRE upside nor any incremental distributions from realized cash incentive fees which have averaged more than $1.50 per share over the last 5 years. As we have been putting Fund VIII capital to work and building value in the portfolio over the past years' distributions from incentive fees touched cyclical lows. Going forward however, as Fund VIII matures and the realization activity begins to ramp up, we expect that cash distributions from incentive fees to be even greater on average over the next 5 years than the $1.50 per share they have averaged during the last 5 years, augmenting our indicated baseline distribution of $1.30 per share and further strengthening our cash profile.Now, I'd like to turn this call over to Martin to walk through our financial results in more detail. Martin?

Martin Kelly
Chief Financial Officer
Great. Thanks Josh, and good morning again everyone. As Leon and Josh alluded to in their remarks, the breadth and scale of our platform continues to expand as total assets under management grew by a remarkable 24% year-over-year to $232 billion driven by $65 billion of inflows. For context, our total AUM has grown nearly sixfold over the past 10 years resulting in a compound annual growth rate of approximately 19%. Our second quarter results continued our strong start to 2017. Total ENI of $515 million for the 6-month period ending June 30, 2017, was 60% greater than for the 6-month period ending June 30, 2016, given continued fee-related earnings growth, rising carry income, and meaningful balance sheet contributions.The $0.46 per share of ENI earned during the quarter was driven by the following key components. FRE of $140 million, which contributed $0.34 per share and total net carry of $70 million which contributed to $0.17 per share. Despite one-time insurance proceeds earned during the first quarter, FRE rose quarter-over-quarter due to higher management fees and transaction fees, while expenses remained well-controlled. The Credit segment drove the quarter-over-quarter lift in management fees as fee-generating AUM grew 6% sequentially from strong inflows.As Josh mentioned, we are expecting a meaningful step function in FRE to occur when Fund IX commences its investment period likely around the end of the year. Furthermore, with the exception of approximately $5 billion in placement fees expected in the third quarter, we do not anticipate any material increase in the expenses related to fundraising activity across the platform will be incurred for the remainder of this year. Over the past year, we delivered solid investment performance across all segments with 20% appreciation in Private Equity and Real Assets and 10% in Credit. This has led to growth in our base of carry-generating AUM. With the addition of Fund IX carry eligible AUM is now more than $110 billion representing a significant source of future earnings power.In terms of performance fee income for the quarter, the $70 million of total net carry we earned was driven by Credit followed by Private Equity and Real Assets. In Credit, carry income was primarily generated by our Drawdown funds with particular strength in our European principle finance franchise. In Private Equity, strength in Funds VIII and VI was mostly offset by unrealized marks in Fund VII and the natural resources funds. In Real Assets, carry income was driven by the U.S. real estate equity funds, which continued to perform well.Regarding our net carry receivable balance, the overall reduction of $97 million or $0.24 a share was driven by carry creation of $0.24 or 12% appreciation offset by realizations in private equity and credit as well as further sales of carry related to AAA.Regarding our cash distribution, the $0.52 per Class A share we declared today for the first quarter was driven by 3 primary factors. First, the relative cash flow stability and growth of our fee-related earnings. Second, cash carry driven by realization activity in Private Equity and Credit. Realized carry in Private Equity was driven by the sale of a sizable natural resources asset as well as tax distributions and dividend proceeds distributed by Fund VIII. Realized carry in Credit came from EPF as well as structured credit funds. And lastly, we earned cash carry from the crystallization of a portion of the AAA carry receivable in conjunction with the secondary offering completed by Athene in May.Before we open up the line for questions, I'd just like to touch on taxes. First, our lower-than-average ENI tax rate in the quarter was predominantly driven by mark-to-market losses on energy investments, which are largely taxable. Second, as our fee-related earnings grows and becomes a more meaningful component of the overall cash earnings profile of the business, we believe it's important to provide clarity around the tax profile associated with this earnings stream. Today, our effective tax rate on fee-related earnings is approximately 20%. We believe this is a reasonable rate to apply to FRE when forecasting our overall ENI tax provision as well as when calculating a value for FRE in a valuation context. Third, our overall ENI tax rate is dependent on the mark-to-market value of taxable and nontaxable carry. Over time, we expect our overall ENI tax rate to be approximately 10% to 15%. And lastly, in the near term, we expect our full year DE tax rate to be approximately 5% to 10%.With that, we'll now turn the call back to the operator and open the line for any of your questions.

Question and Answer

Operator

The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Will Katz with Citigroup.

William R Katz
Citigroup Inc, Research Division

Appreciate all the extra color on the call as well. Very, very helpful from [indiscernible] perspective. Just wondering if you could spend a little time talking about Athene in Europe in it's an area that Mark and his team have really been focused on lately, and so you've raised some cap of this particular quarter. Any sort of related thoughts on how quickly you could scale, I mean what the aggregate opportunity might be with that business?

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

Yes, so as we've said before, I mean obviously we learned a lot from the experience of Athene in the U.S. And so in Europe, the insurance companies in Europe are facing challenges related to the decline in the interest rate environment and their inability to cover the cost of the -- that they've agreed to pay the policyholders implicitly. And so that's leading a big opportunity where there -- there's many, many things to buy and the industry itself is going through a difficult time period. And the way Europe works, obviously there's a lot of leverage in insurance companies, for every dollar of equity, you can -- it gives you about $20 to $25 of asset. And so the math is relatively straightforward, I mean we've announced that we raised a EUR 2.2 billion fund, and so if you do the math on that, you multiply by $20-$25, you can see that $50 billion to $60 billion of buying power. And we expect and intend to spend the fund. The timing of how we spend it and that money is raised and we're in the market, the timing of when and how we invest that money is uncertain because obviously you're looking at different acquisitions and it's difficult to predict, but that's something that we're focused on in the near term. And obviously as we've talked about before we developed an active management capability in Europe that allows us to in our opinion add value on the asset side to that entity which is the trick today in buying very low-cost liabilities is you have to actually be able to make an appropriate return on the asset side and I think we think we can do that. And we have a very good regulatory relationship as well, it's a highly regulated business. So that would be the Athene Europe opportunity.

William R Katz
Citigroup Inc, Research Division

Okay, thank you. And just to follow up just coming back to Fund VIII for a moment, do you have a sense of where you are today in terms of the investor, I thought I heard you say about 80%, but I'm wondering if that sort of takes into consideration where you are through the third quarter? And is there a rule of thumb to sort of think about when the waterfall cash flow might start to come out given that let's say the average age of investment is about 2 years or so.

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

Yes, so I'd say that, yes, we have a couple of billion left to spend, and yes, it's unpredictable, but our current case we would expect that to be kind of concluded around yearend, but clearly it's a deal business again, so there's some amount of variability around that, but we're looking at about yearend in terms of when we would kind of move to Fund IX. We generally -- that would leave us about 10% for follow on investing. So that's our typical strategy is to spend about 90% of this fund and leave about 10% for other opportunities or other clean up that's required in Fund VIII. In terms of the waterfall, we're in -- I mean obviously at 16% net return, we are fully in carry distribution and so as Leon said the fund itself was raised over 3.5 years ago. The average life is 3 years, but certainly the early investments are getting a little bit older and maturing and so as we're going to be opportunistic about ultimately beginning to realize proceeds in Fund VIII. And obviously that will be market condition dependent, but as Martin said we're now coming into -- we're approaching the harvesting -- the time where we harvest some of the things that we've grown over the last few years and so I would expect our incentive be subject to market conditions to start to increase materially from here.

Martin Kelly
Chief Financial Officer

Yes, I'd just point out just in the second quarter alone we had monetizations from three different portfolio companies in Fund VIII, so early signs of realizations as Josh mentioned, we had dividend recaps at ADT and Outerwall and sold some stock in Warrior.

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

I mean at 26% net -- 26% gross, we're well, well into carry distribution. It's not even close. So like I think -- I think come up will be getting carry distribution.

Operator

Your next question comes from the line of Michael Carrier with Bank of America.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

I guess first question just on fundraising, given the strength that you guys had in Fund IX, especially I guess with some of the newer relationships, do you see any other opportunities? I know you mentioned real estate, you're calling that Real Assets, and I don't know if there's additional growth opportunities there, obviously we're seeing in Credit with total return, I just wanted to see how the expanding relationships kind of paint like a future picture for fundraising?

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

Yes, look, I mean obviously, look, the strength of our brand and our investment performance and the lack of return in the market, all of those really are putting us front and center in terms of the largest investors in the world whether it be the U.S. pension fund system or certainly some of the sovereign wealth systems, and as Leon said, there are emerging pools of capital all over the world that didn't exist in the past that are just approaching alternatives for the first time. And so certainly like everyone there's no question that people are looking to us as a strategic partner as to how get them to move intelligently I guess up the risk curve and generate excess returns whether that be in Credit where we are continuing to develop alternative sourcing strategies to generate extra returns over the curve or whether it be in Real Assets and infrastructure where we're looking at -- obviously we hired Joe Azelby, and we're looking at the opportunity -- broadening opportunities there that have been well-discussed. Or whether it be certainly in other longer term forms of private equity, and so we're seeing across our platform Real Assets infrastructure, Credit, and different forms of Private Equity incoming calls where we have real opportunities and so in order to capture those opportunities clearly for us our ability to grow is only limited by our ability to execute. And so increasingly where the capital is not the issue what -- we're given as much capital as we need. It's really an issue of willing to take the capital we can generate excess returns, we're really focused on investing and building teams and strategies that differentiate us and allow us to provide excess return. Some of the areas that I mentioned are areas that were heavily focused on and particularly within Credit I should mention yield where obviously there is with the central bank intervention and the wall of money, the ability of pension funds to generate traditional fixed income returns in the [5, 6, 7] area is gone and therefore there's a big opportunity for us to go off the run whether it be structured credit or into other middle-market lending or into other areas like that which there's a long list of them that I could rattle up, and deliver back that 5% to 8% return that is very illusive, but still a pretty good credit quality. So increasingly we're going off the run, we're going out of the public markets and building up these strategies and increasingly for us it's about not raising the capital, picking who we want to take the capital from and who we can grow with.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. That's helpful. And then just a quick follow-up. I know the last 12 months the performance has been strong in Private Equity. Just in the quarter, you mentioned on the energy side you were on a bit. Just if you can provide any color on the energy exposure and how you guys are looking at those investments and maybe future investments in that sector?

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

Yes, look, I mean I think that we have I guess on average kind of about 7% energy exposure across our platform, but half of that is dry powder that kind of raised for energy and half of it's in the ground. Certainly the stuff that we have in the ground to a large extent is very well-hedged and for the most part with a kind of exception or two in the lowest cost basins in North America which today are competitive all over the world. And so we're -- certainly there's volatility around when oil and gas drop 5% to 9% -- 4% to 9% across the quarter and on June 30, they took down right like that affects the market pricing of the comps. And therefore we have to mark down -- we have to on an unrealized basis mark down our portfolio, but we still believe that what we have in the ground which obviously is only 3.5% of our overall platform will deliver value over time and that the other 39% when there's this energy volatility that becomes much more interesting and today whereas when oil was at $80 or a $100, we were able to buy in the ground at $60. Today with oil at $40 to $50, we're able to buy stuff that's economic in the ground at $20-$25. So that's really where the best North American basins are. So the North American energy industry has restructured itself such that -- and enhanced its own technology such that today its competitive with the lowest cost producers in the world, Saudi Arabia and others. And so the investment opportunity is much stronger today as an energy investor than it was when oil was at $80 because of the fact that we are investing in kind of top quartile from a cost standpoint energy assets versus what used to second to third quartile here in North America. And so we're pretty optimistic about our energy business and we have an incredible -- we're one of -- if not the best, we're one of the 2 best energy franchises across our platform. And so we think we're -- it's something that while it does create a little volatility from a mark point of view, we are very -- we think we're very excited about it and strongly committed to.

Operator

Your next question comes from the line of Glenn Schorr with Evercore.

Glenn Paul Schorr
Evercore ISI, Research Division

So I heard the previous conversation obviously on everything in Athene Europe and the related. I've definitely noticed to your point, a), more portfolios for sale and opportunities to invest, but also more competitors trying to step in front and enjoy some success that you had. So it seems like it's getting more competitive. What can you talk about on both the competition for portfolios, pricing terms and how you think about that?

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

Look, in the financial it certainly -- I mean obviously particularly in the U.S., people have seen what we've done and the way that the financial industry works is you have to keep innovating, right? And otherwise you get copied. Having said that -- and things are more competitive. They're more competitive everywhere and so that's just a natural phenomenon when you have huge kind of money flows and central bank intervention across the world, it's affecting all markets. I think what we keep trying to do is move kind of to where the puck is going versus where it is today, and -- but having said that, certainly people watch what we do. But I think we'll get our share. In Athene and Athene Europe I think we have 2 very solid platforms there and we've built competitive advantages on the investment side which others don't have. Not to mention all the experience we have with very tricky highly regulated business, right? So it's not -- kind of this isn't easy, it's complicated, but having said that, yes, like there are a lot of smart people out there and certainly there's competition everywhere.

Martin Kelly
Chief Financial Officer

And I would just add, I mean it's still -- certainly as Joshua said, it is more competitive. But the nice thing is that we're talking about Athene and they'll do their own call coming up shortly, but they have other levers to grow and don't have to rely on M&A. I mean, they've got flow reinsurance, they've got retail, they've got plenty of room back notes, opportunities and other things. So there are many avenues for Athene to grow and they're not relying upon M&A. I think they've proven that they're very disciplined gatherer of liabilities and we'll continue to be patient and opportunistic.

Glenn Paul Schorr
Evercore ISI, Research Division

Appreciate that. Similar but related follow-up is on Real Assets. I see you hired a new head, I think it was in late April. So I'm curious if there is an overarching growth thought process for Real Assets and maybe a specific question on infrastructure and lots of opportunity, lots of competition, just curious on where you guys stand.

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

Yes, look, I mean, I think in Real Asset I think we've said often that if you look at the -- our investor strength, our relationships, our ability to generate deal flow, our real estate or Real Assets segment including real estate is undersized relative to what it should be and so it is -- it's a natural growth opportunity for us. Certainly -- and then obviously in infrastructure. So it's going to grow and certainly this is a natural evolution in terms of bringing in talent and focusing on it. And the name change obviously there are certainly -- I mean, it's been well-publicized that in the U.S. and other places there's just the need for better infrastructure here. And so there would be opportunities in infrastructure. And clearly, we're -- and there is also a lot of competition in both those sectors. We're getting late cycle in real estate, but we're going to approach all this stuff in [indiscernible] way, right? We don't just go in and do whatever everyone else is doing. We trade complexity and aggravation for rate of return in purchase price; we buy at discounts; we roll up our sleeves; we take on the more complicated, harder to understand, harder to finance, harder to diligence situations and we get paid for it and we get paid for executing. So we're not going to do what everyone else is doing, we're going to do it our own way. Clearly our investors appreciate that. I was on a call with a large investor last night and they're very interested in all these phases and interested in how we're going to approach it differently. And clearly, we're not going to just go where in certain sectors there's no excess return and those sectors we'll largely leave alone. But we're going to find those sectors that for whatever reason are interesting and provide Alpha and that's kind of what we do across our platform.

Operator

Your next question comes from the line of Devin Ryan with JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

I just want to hear on the opportunity in Asia. I know that the flagship fund is global, but Asia seems to be getting more attention and kind of maybe more specific funds targeting the opportunity. So I'm just curious if -- I guess, maybe 1, kind of, what are you seeing in the investment landscape there? Do you feel like there maybe is more opportunity and would this just remain something within kind of the flagship or would it maybe make sense to be more dedicated there?

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

Yes, so we obviously -- we have a flagship Private Equity business and certainly we have the -- and have invested outside in Asia. We also have discrete funds in our credit businesses that are focused specifically on Asian credit opportunities. This still represents less than 3% of our platform. I mean certainly we have offices all over the place in Asia and Shanghai, within Asian real estate business; and in Hong Kong, in Singapore, in Mumbai and in a lot of places in Asia and we're not immune to -- we are focused on the investment side in Asia, we have a large team there. But we continue to see -- for our brand of investing which is deep value investing, and then credit-oriented investing, we continue to see so much opportunity in markets like in North America and Europe that it hasn't been a significant part of our business. But I expect it to be a stable and growing part of our business. And so I would say that you just have to put it in context. For the most part, given the disparity of Asia and in many cases lack of creditor rights and the valuation in Asia which is generally higher value, but not always, and some of the currency risks that occur and the lack of transparency of the financial statements in many cases and this does -- Asia is not monolithic, this does apply to certain parts of Asia, it hasn't been a significant kind of private equity market or credit market -- deep credit market. It's been -- there are certainly firms that have done very well in Asia and we would -- that have maybe bigger footprints than we do, but it's not a -- it's for the most part in the alternative landscape, not as big as other things. And I think it will take -- I think over time it will grow, but it will take a bit longer to get there.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay. Perfect color. Thank you. And then maybe just pivoting over to Real Assets, again appreciate all the color there and it seems like some potentially interesting things to come. With respect to real estate specifically, will later cycle there as you mentioned potentially, but still a lot of room to scale. And it would seem that acquisitions were 1 area that could accelerate that and then maybe some things that had been looked at over time. But it has been quieter on that front. So I'm just curious how you're thinking about acquisitions there? If there's things that are becoming more or interesting or if just valuations don't make sense given where prices are right now?

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

No, we're on the prowl. Obviously we announced and Gary Parr has joined us and obviously brings a lot of capability from his days at Lazard and so we're getting very organized. And certainly real estate is a core focus, but, look, the reality is acquisitions in the alternative space where you're buying people and they're complicated to put together. So it's not that the lack of announcement, right, doesn't beget a lack of activity, it's just that they're hard to put -- it just kind of takes -- these are opportunistic deals and certainly we approach them in [indiscernible] relative to evaluation, but I'd say real estate is a very -- it's a core focus of the firm and certainly I think it is an area that we're going to be adding capability and we're -- whether it be capability such as adding Joe Azelby or building up the team or capability in terms of buying existing teams and assets. So all of that stuff is on the table, but it's a just a matter what makes the most sense at any given time.

Operator

Your next question comes from the line of Alex Blostein with Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

I wanted to spend a second on Credit with you guys and just the fundraising dynamic outside of kind of Athene in Europe and the Drawdown funds. Could you guys spend a couple of minutes on what's happening in the separate account business and I guess the up-tick in the total return product, sounds like momentum there has picked up a bit, so just wondering how you're thinking about that growth for the next 12 to 18 months?

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

Yes, I mean I'd say that -- look, if you look at it, obviously we had a -- we had significant growth outside of Fund IX in terms of growth across all areas of credit. And I'd say that what's happening is that certainly total return, the thing you've mentioned, right, which is the -- I'll call it the -- broadly the crossover state, to say it's 5 to 10 -- 5 to 8 and then the managed accounts in that 8 to 10 area. That space, right, which is what you're talking about which is how do I make returns that I used to make in my fixed income bucket? Like how do I do that when BBBs are now priced at 2.5 to 3 and governments are at 2 to 3 and BBs are at 4 to 5. It's a space that is very active for us and what total [indiscernible] is that it goes off the run a bit and so for a BB credit plus or minus, you can pull in duration from 5 years relative to some of the competitors to a year and generate 200 basis points to 400 basis points of excess return by giving up a little bit liquidity -- quarterly liquidity product versus daily. And so that has a lot of appeal to people. And so that is one big area. Another big area you mentioned is the separate managed accounts. I'd say the areas that are growing the separate managed, those are growing and we are amending those. Certainly the more high-octane, like, hey I want a 15% to 17% rate of return and I want to play distressed, that area of the market is more difficult to source investment opportunities. So more of -- it's not impossible, but it's difficult because things are overpriced. The more -- the bigger opportunities are around in that, hey, I want a double-digit return, but I want less -- take less risk and so we're seeing a lot of opportunities there to play in levered bank debt, to play in structured credit, play in a little bit of off-the-run corporate credit, that's growing. And then the last thing that's really growing is our strategic capital platforms and so we unlike our competitors have between Athene and Athene, the money we're managing in Europe, which is still small and mid-cap, which is our middle market lending vehicle, all of those platforms are growing and they amount to kind of $80 billion to $90 billion and they grow at mid to high -- so they grow at various rates, but when you average it all out, they're mid to high single-digit every single year. And so we're increasingly having to develop strategies to feed them and to make sure that they're -- they have assets that allow them to grow their liability base. And so all of those areas -- and then -- and so those are areas of growth and then what Leon mentioned is that on the more opportunistic areas, those are big -- all big areas of growth that are very consistently driving kind of double-digit growth -- mid to high single-digit growth every single year on a credit basis. And then when you look at our opportunity products, whether it be our non-performing loans fund in Europe, which is broadening to a bit more global or our insurance linked fund FCI, or our structured credit fund, SCRF, all these are -- we're trying to get rid of the monikers here, but when you look at all these opportunities funds that are higher return funds, every single fund we're raising a lot more money than we did in the last time. And so again, it all comes back to the same thing which is that really it's not about finding the money at this point, it's about finding the opportunities and so we have a different focus maybe than others. But we have this built-in and so when you add it all up, we get to double-digit growth in that area, really without a lot of new innovations. You start new innovations like Athene Europe, and all of a sudden you can get much higher growth and so that's kind of where we are in our credit business. I hope that color is helpful.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Yes. No, thanks for all the detail there. And just one quick clarification, I thought I heard you guys say Fund IX contributes about $0.50 to FRE next year. I guess that implies almost 100% incremental margin, I just want to make sure that I got that right or other expenses that we need to think about kind of offsetting some of that top line?

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

Yes, that -- no, no, that's -- I mean that's our best guess estimate. I mean obviously when you have a scale team, there are -- that scale team invest in margin larger deals or whatever, we don't -- we're going to keep investing, but that's the net.

Operator

Your next question comes from the line of Brian Bedell with Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Maybe Josh and/or Leon, I know I've asked this question before about the creation multiples and you've done an impressive job and continue to have those reduced over the life of the different portfolios with funding at 5.7. What's your -- I guess just as you look at the environment in the $25 billion that you've got in Fund IX, do you think that 5.7 area is -- nothing too precise, but basically that trend is sustainable and keeping that creation multiples exceptionally well in that area? And in terms of the investment opportunities, the mix of your investments have changed over time depending on the environments and the funds there. Do you feel there's a lot of flexibility in this fund, I guess depending on what type environment evolves over the next couple of years or do you have sort of -- you think you have a lot of the opportunities already in sight?

Leon D. Black
Founding Partner, Chairman & CEO

I think that this has been a long-term trend and something we work that for over a long period. What's kind of interesting is if you look at our last four funds going from 5, 6, 7 and 8, actually the spread versus our competitors has widened with each fund. It's gone from 2-multiple arbitrage to 3, to 4, to 5. And that that hasn't happened by accident. And my view has always been there are many roads to Rome, it's not that our competitors -- some of them are very successful. They buy maybe higher-growth companies, they take more risk and they can still make money paying higher multiples. As a value investor, we've kind of gone the other way. We have felt that the biggest determinant of result -- of a good result, many, many factors that go into that as everybody in private equity knows whether it's good management or it's market leadership or it's margin, barriers to entry, et cetera, et cetera. But we have always felt that the single most important factor was price paid in terms of determining a good result. So our view has been to develop multiple pathways, it's part of our culture to be able to buy very good companies and pay lots for them. And the multiple pathways have included buying good companies with bad balance sheets during recessions and doing it through the debt, it's a big part of our business when a down-cycle happens. We also do idiosyncratic buyouts. We also do things with a lot of complexity like carveouts and build-ups. The key to all of these things is having some type of an edge. I mean ADT is a very good example. Our edge there is we brought a couple of hundred million of synergies to the table because we combined ADT with 2 existing security alarm company that we own. So that edge is all important to us. And look, the discipline of buying things at low multiples that can give you good returns I think has really been the hallmark. Now, I can't guarantee that that trend that our next fund will have a 6 arbitrage versus our peers, but I'll bet you here that it will be still considerably lower than what our peers are doing because it is part of our culture. I think my partners and I were particularly heartened by the last 3 years and what we were able to do in Fund VIII. I mean, let's face it; the last 3 years were very challenging from a private equity point of view. All-time high prices, leverage caps and for a while declining GDP growth, well, when you put all of those factors together the math tells you that returns should come down, and it was really against that environment that frankly if you look at 2016 we put more private equity capital to work than any time in our 27-year history. We did it with very good companies and we did it a 5.7 multiple. So I think our way of viewing the world and our MO is something that is working for us. And that's what we plan to continue to do. It's what our investors depend on us to do, it's what we've all been trained to do here. And as I said, everybody asked us last time around how are you going to invest this money with an $18.5 billion fund, well, we invested in 3.5 years that are 5.7 multiple in a very challenging environment. So I think after 27 years and 4 cycles and the ability to be able to play well in each of these pathways make us pretty confident that come what may that we'll be able to continue. The last footnote I would just say is that whereas Fund VII was 2/3 distressed after the financial debacle, Fund VIII was less than 5% distressed. So we're not dependent on the recession, but the fact is that a recession happens in the next 4 years, it will be something we can also take advantage of in Fund IX in terms of that prowess, but if it doesn't happen, we're confident from what we were able to do in Fund VIII that we can continue to do that in Fund IX.

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

I'd just add that increasingly for the first time we spent $9 billion in last 18 months and with 70% was public to private. And that's been -- this is a relatively unique time in the public markets where we're finding that the markets while they're at -- while they're at a full PE Multiple, on average they're bifurcated between like the haves and have nots and we're finding increasingly many companies that possibly used to be hedge fund-owned, used to be activists-owned, that used to be actively -- where active value managers used to own them, without the bifurcation into the path of strategies and alternatives has led to an opportunity for us to take it to actually buy things out of the public market even after a premium at very, very cheap multiples to cash flow. And so anything that is complicated or where there's an earnings mess, but there might be a great franchise, we can take private and then in essence put in place better management or restructured portfolios that might not fit well together or not -- might not be understood and so increasingly -- and our size, I mean the other thing is I'd say that now being at $25 billion, it's just there are very few funds in the world or entities in the world that just have the kind of size and access to capital, whether it be equity capital or debt capital that we do, so we find ourselves increasingly in my opinion in an area where less and less private equity firms are able to compete effectively. And so we're just finding better opportunities relative to maybe when we were smaller and there were 20 people who could do what we do.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

No, that's fantastic color, thank you. And then just maybe just a follow-up on the other side of that from a realization perspective, obviously you've been on a pretty good pace there, so as we think about Fund VIII and maybe going back to the last cycle I think when you said you're going everything that's not nailed down, at that point you said few years ago as we sort of advance in this cycle, are you thinking for dispositions in Fund VIII that you'd rather do that sooner rather than later or we're -- have some positions hang out through the next cycle?

Leon D. Black
Founding Partner, Chairman & CEO

Look, I think to be good at private equity you need to be good at 3 things. You need to buy well, you need to build value and you need to sell well. And if you're missing 1 piece of that, you're not going to be that good. And our view is there is a time to put seeds in the ground, there's a time to harvest, that's in the middle you build a lot of value hopefully. I think we are very opportunistic when I made that statement last time, we followed up on it, and we did sell almost everything that wasn't nailed down, or we refinanced it because between the M&A market, between the low interest rates, the financing market, dividend recaps et cetera we're all out there available. I think we look at it similarly. However, when we buy something right and we want to build value that takes a little time. So you want to try to get close to maximizing that. You don't have to get the last dollar off the table there especially if you have favorable markets for realization during the exit. So I think what Josh was saying earlier is, yes, we may be average than Fund VIII, but a little less than 2 years right now, but some of those investments are 3 years. We've already had some realizations this year and I think that's only -- that trend is only going to accelerate obviously dependent on markets cooperating, but from our point of view the part of building value is going on every day, every week, every month and so when there are opportunities this year, next year, the year after you're going to see us hitting it to take the realization.

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

You're in year 9 of an economic expansion making it 1 of 3 since World War II that have lasted that long. There are very few that have lasted more than 10 or 11 years. I don't think there are -- there may be one. The interest rates are at an all-time low. Equity prices are at an all-time high. PE multiple's are full and the economy is growing at a relatively slow pace. So when you think about it and when you buy at 5.7 in the market that can, you've created a lot of value on buy, it doesn't mean that you give up the value you can create in the build, but you're sort of -- when you do that and you execute you've already created a lot of value. And so we're very focused on realizations and Fund VIII particularly where they make sense to cross our platform.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

That's fantastic color. Thank you so much for all the detail.

Operator

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

Gary M. Stein
Head of Corporate Communications

Thanks Operator, and thanks everyone for joining today. As I mentioned earlier, if you have any follow-up questions, please feel free to reach out to Noah Gunn or me. We'll look forward to speaking to you again next quarter.

Operator
Again thank you for your participation. This concludes today's call.