S&P Global
Market Intelligence

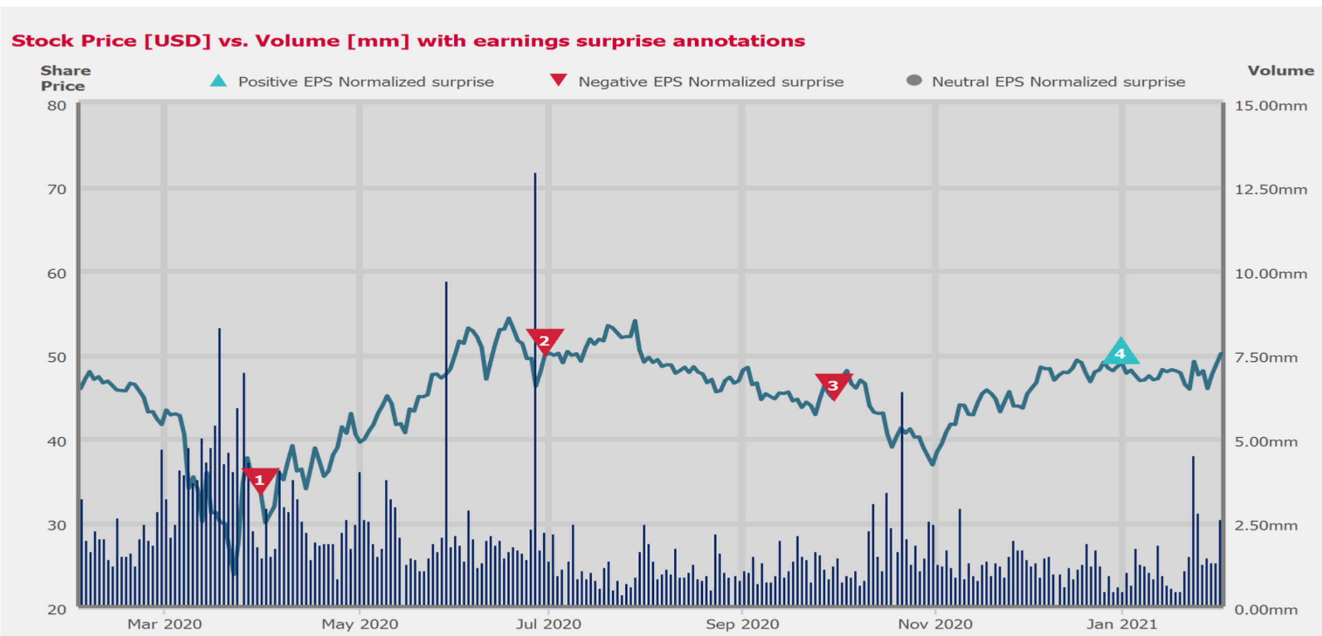
Apollo Global Management, Inc. NYSE:APO
FQ4 2020 Earnings Call Transcripts

Wednesday, February 03, 2021 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.50	0.72	▲44.00	0.55	1.80	2.02	▲12.22	2.68
Revenue (mm)	480.07	519.79	▲8.27	504.78	1868.80	1909.32	▲2.17	2089.76

Currency: USD
Consensus as of Feb-04-2021 11:08 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	0.48	0.37	▼(22.92 %)
FQ2 2020	0.47	0.46	▼(2.13 %)
FQ3 2020	0.49	0.47	▼(4.08 %)
FQ4 2020	0.50	0.72	▲44.00 %

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Call Participants

EXECUTIVES

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

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

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Martin Bernard Kelly
CFO & Co-COO

Peter Mintzberg
Head of Investor Relations

Scott M. Kleinman
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ANALYSTS

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William Raymond Katz
Citigroup Inc., Research Division

Presentation

Operator

Good morning, and welcome to Apollo Global Management's Fourth Quarter 2020 Earnings Conference Call. [Operator Instructions] This conference call is being recorded. This call may include forward-looking statement 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 constitute an offer to sell or solicitation of an offer to purchase an interest in Apollo Fund. I would now like to turn the call over to Peter Mintzberg, Head of Investor Relations.

Peter Mintzberg
Head of Investor Relations

Thanks, operator, and welcome to our Fourth Quarter 2020 Earnings Call. As many of you know, I joined the firm in November as Head of Investor Relations. And I'm very glad to be here with you all today for my first earnings call with Apollo. Joining me this morning are Marc Rowan, Josh Harris and Martin Kelly. Jim Zelter and Scott Kleinman are also on the line for questions. I would like to turn it over to Marc to kick off our comments for today.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Thanks, Peter. Good morning, everyone. I'm excited to be here following the conclusion of my very poorly planned recent sabbatical. I look forward to engaging with our investors and shareholders as I transition into my new role.

As you will hear in more detail, the Apollo platform is strong, resilient, extremely well-positioned for growth in today's landscape as our exceptional 2020 results have demonstrated.

Before I turn to the quarter and the year, I want to review the announcements that were contained in the various communications last week. I will first touch on governance, then leadership and lastly, our investors. In terms of governance, we believe the changes described in Leon's letter last week were an important step in our evolution from a private partnership to the standard set by the best public companies. Our industry is in transition. Our firm is in transition. All of us are moving from the small private partnerships that we started life as to important components of a more global financial system. Proper governance and transparency are going to be essential to play the role that we are supposed to play in this marketplace.

Specifically, as a firm, we are committed to moving promptly to a governance structure that will enhance our Board with additional diversity, possessing different viewpoints to bring experience to bear that is needed to help drive our business forward. We are committed to moving our Board to 2/3 independent over the near term, and we are committed to appointing a lead independent Director who will actively and regularly engage with the management and the Board.

As it relates to directors, we have already made substantial progress. Last week, we announced that Pam Joyner and Sid Mukherjee will be joining our Board effective March 1. Further, we are in active dialogue to bring additional high-quality talent on board to help us drive the business forward at our Board of Directors level.

Beyond the Board changes, as we have alluded to, we have begun a process with our independent committee of the Board to promptly evaluate and review the steps necessary for Apollo to adopt a one share, one vote structure and other changes that will be required to be eligible for us to be included in a broader set of market indices.

These changes, I believe, would be incredibly beneficial for our firm and, again, further reflect our commitment to moving to a more modern state given the important role that we play in the financial landscape. I believe the independent committee of the Board will return promptly with their recommendations, and we will take it from there.

Away from the governance changes, we are making a series of changes to Apollo's leadership. Leon will be retiring as CEO and will remain Chairman of the Board. Josh will remain a co-Founder and member of the Board and Executive Committee, working with our largest investors, evolving our integrated platform and expanding the strategic opportunities where we look for investments.

Scott and Jim will be assuming additional responsibilities as we all realign our areas of focus. We are fortunate to have an incredibly deep bench of talented partners who have been together a very long time. Leon, Josh and I have been together and been partners for more than 30 years. We have been through all kinds of market cycles and all kinds of events, and I expect our partnership to endure for a very long time.

Having reviewed governance and leadership, let me now turn to speak about our investors. This has been a busy week-plus of communication with our investors. We have had an opportunity to speak with a very broad cross-section of our limited partners and their advisers and consulting relationships regarding the conclusion of the Conflicts Committee review and the governance and leadership changes. The vast majority have indicated that they are satisfied with the announcements, which, they and we, believe strike the right balance for the firm. Perhaps most importantly, they appreciated the seriousness with which we took the process and the transparency.

As we expected, a smaller portion of our investors will need time to consider these events and the changes we are implementing. And in some instances, they may actually want to see how these changes unfold. We realize that we may not be able to satisfy each and every of more than our 100 -- excuse me, 1,500 institutional investors, but we have made tremendous progress. We must continuously strive to improve our process and governance and, most importantly, to deliver superior investment returns to our investors.

We expect third-party fundraising to build significantly now that we have addressed these issues. The strength of the business shows that even in this past quarter, with these headwinds, we continue to raise money across a number of funds and syndicated more than $9 billion of investments amongst our limited partners and insurance affiliates.

As I said, the business powers ahead. As Josh will discuss, this was a record year for Apollo across multiple metrics. AUM is at a record high, increasing by more than $22 billion in this quarter alone. The momentum in this business is strong, and as we implement these various changes, I expect that momentum to increase.

Now to take a step back. This is a unique time for me to become CEO of Apollo. We are a growth business, and we are fortunate to be a provider of a service that's in incredibly high demand, namely investment returns. In addition to the product we provide, our market is growing and it's growing dramatically. We primarily serve retirees, either directly through our insurance affiliates in the form of guaranteed income or indirectly with our yield in opportunistic products through institutions like retirement systems, pension plans, endowments, sovereign wealth funds and others. All of these clients we serve are looking for investment returns. And it is our job to continue to grow our front end, meaning our ability and capacity to generate good returns per unit of risk assumed.

While the AUM growth this year is nothing short of substantial and spectacular, growing AUM is just a measure and not a goal in itself. It is the result of good performance. For good managers like Apollo, the ability to raise money is not the primary governor of our growth. It is our capacity in difficult markets to source investments that provide above-average returns for the risks undertaken. As long as we maintain our capacity and grow our capacity to produce returns, AUM will follow.

I feel fortunate to be leading an incredibly healthy business. I believe we have a unique opportunity Apollo -- at Apollo based on the strength of our people, coupled with our investment expertise across numerous sectors and the benefit of our permanent capital vehicles. We are strategically positioned at the intersection of growth, yield and value. Our particular edge is being able to source assets that cater to a range of capital structures from lower yield insurance company balance sheets to high-return opportunity funds.

In a market that is characterized by indexation, correlation and volatility, I believe that presents a unique opportunity for Apollo's style of investing to really stand out. An Apollo portfolio is fundamentally different than a BlackRock portfolio, a Blackstone portfolio or anyone else's portfolio. The unique skill -- unique DNA of Apollo is to source investments up and down the risk-reward spectrum that represent good returns per unit of risk undertaken. So long as we stick to that tenet, we will continue to be successful, and we will continue to grow our firm.

I would be remiss not to take a moment to thank Apollo's more than 1,500 employees around the world. They have worked tirelessly in a very difficult year to achieve the impressive results we have announced today. I'm extremely proud of the extraordinary team, their perseverance and dedication they have demonstrated throughout this very interesting year.

With that, I turn it over to Josh to cover our strong results for the year.

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

Thanks, Marc. We're all really glad to have you back from semi-sabbatical and in your up and coming role as CEO. I'd like to begin by acknowledging the unprecedented challenges we have all faced this past year as individuals, as an organization and as society. The impact of this global health and economic crisis, including illness, numerable losses, record unemployment and extreme market volatility are far-reaching and will be felt for a long, long time. Thank you to all the essential workers who have worked tirelessly to get us through this difficult time and who continue to push our country forward.

Despite this challenging backdrop, Apollo delivered very strong results for the year, validating the resilience and differentiation of our business model. We acted quickly to help our investors, many of whom are the frontline workers getting us through this crisis while, at the same time, helping many great companies during extenuating circumstances by providing liquidity solutions.

We reported record inflows of $123 billion and achieved deployment activity of $88 billion. We generated record fee-related earnings of $2.37 per share, reflecting a 15% growth year-over-year and have surpassed $1 billion of FRE for the first time in our firm's history. In addition, we've exceeded $450 billion of AUM, another milestone for the firm.

For the fourth quarter, we reported distributable earnings of $0.72 per common share; pretax fee-related earnings, or FRE, of $0.63 per share; and a cash dividend of $0.60 per share. We ended 2020 at $455 billion of AUM, growing 38% year-over-year as a result of a record inflow year, which included $13 billion of inflows for the fourth quarter. Organic growth accounted for 16% of the 38% increase in AUM, with 2 insurance transactions creating the remaining 22% increase.

Specifically, the $123 billion of inflows for the year was driven by $72 billion of inflows from the 2 notable insurance transactions, which created additional scale for both Athene and Athora; $17 billion of organic growth in our insurance platforms; and $22 billion of third-party capital raising across our new large-scale origination platform, ASOP; new vintages of existing fund franchise, such as Hybrid Value and Accord; and new product initiatives, including the IPO of our Apollo strategic growth capital, SPAC; and the launch of our first infrastructure opportunities fund.

Turning to deployment. The breadth and differentiation of our platform resulted in $88 billion invested this year on behalf of our clients. This deployment included repositioning and growth in the assets of Athena and Athora's balance sheets, following the 2 transactions during the year, organic growth at the insurance platforms and growth in our private credit origination business. In a year marked by so much change, our role as a capital solutions provider for companies greatly expanded.

Our origination capabilities continue to broaden and now span middle market and large-cap corporate lending as well as numerous asset-based lending categories. We see a large opportunity for Apollo to continue leveraging its intellectual capital across credit, private equity and real assets to meet the needs of our clients and provide solutions to a diverse set of companies.

In the fourth quarter, we provided $9.3 billion of bespoke off-the-run long-dated capital solutions for investment-grade companies. Among these included a $4 billion DIP financing for Hertz, which provided a structured solution for its fleet; a $3.1 billion transaction for Anheuser-Busch InBev's container manufacturing business. Each of these deals was customized to the needs of the respective company and demonstrate our ability to create a wide spectrum of bespoke financing solutions to corporations.

Turning to FRE. The momentum we generated through our robust AUM growth and capital deployment translated into growth in our fee-related earnings to reach $2.37 for the year and grew 15% year-over-year. Management fees grew to $1.65 billion, up 11% year-over-year, and demonstrated very little correlation with volatile public markets.

We made several important investments across the platform in 2020, focused on expanding our origination capabilities, furthering new growth initiatives such as our infrastructure impact and SPAC strategies, scaling our technology and infrastructure groups across the firm.

In addition to the strong financial results we achieved in 2020, Apollo and its portfolio of companies focused significant attention on providing support to one another and our broader communities. We continue to prioritize and realize the full value of environmental, social and governance factors and believe strongly that seizing ESG opportunities makes us better investors and better stewards, by positioning Apollo and our fund's portfolio of companies for sustainable success.

Just as important, we believe that Apollo can and should have a positive impact on society beyond its businesses, helping to make the world a better place and improving people's lives. In line with that mission, we were proud to launch a citizenship grant program, matching employees' charitable contributions and rewarding employees' volunteer time. This year, we donated more than $50 million to philanthropic causes and contributed 3,550 hours of service. Through the matching program, employees have donated to more than 1,500 different nonprofit organizations to date.

To echo Marc's comments, our firm's resiliency and strong business model strategically position us for success in today's evolving market landscape. Our financial position is strong, anchored by the $273 billion of AUM in permanent capital vehicles, 60% of our total AUM. Our fee-related earnings continue to grow through varying market environments with close to 100% of our pretax earnings in 2020 derived from FRE, giving our shareholders high visibility into our core earnings drivers.

Looking ahead, we anticipate increased demand for Apollo's investment expertise. Investors continue to struggle with sourcing yield, driving demand for proprietary and scaled origination. Investors increasingly seek global scaled asset managers with the ability to create solutions for a wide variety of mandates across lower cost capital such as insurance to higher return, opportunistic capital. We believe the path forward is bright for Apollo, and we're incredibly excited to continue on this strong trajectory. I speak for the entire management team in expressing our deep gratitude to our bench of talent who've come together to drive the success we've experienced this year. Thank you. We are very much looking forward to what 2021 will bring for our firm. With that, I'll turn it over to Martin.

Martin Bernard Kelly
CFO & Co-COO

Thanks, Josh. Let me touch on FRE DE and dividend to start with. For the fourth quarter, management fees grew 3% over the prior quarter and 13% over the fourth quarter of 2019, driven by growth in fees for investing the assets of our insurance clients as well as deployment-driven growth in our credit and real assets businesses. For the full year 2020, management fees grew 11% over the prior year.

Transaction and advisory fees were $81 million in the quarter driven by capital solutions transactions and private equity activity. Compensation grew 8% over the prior quarter. This reflects our continued investment in growth initiatives across the firm, including support for our insurance businesses. Head count grew by more than 20% in each of the last 2 years, driven by the growth areas that Josh has highlighted. Noncompensation costs grew 12% over the prior quarter and included costs related to the independent review. For the fourth quarter, we announced a dividend of $0.60 per share and after-tax distributable earnings of $0.72 per share, our highest quarter since the fourth quarter of 2019. Our strong FRE of $0.63 per share were supported by net incentive earnings of $0.15 per share.

Turning to incentive realizations. We realized $187 million of gross performance fees for the fourth quarter, primarily related to our credit strategies fund, which returned 24% in 2020. Gains from sales in Fund VIII were returned to LPs as a result of the impairments recognized in the first half of 2020. At the end of the fourth quarter, the netting hole on Fund VIII had been reduced to $266 million, equivalent to $0.06 per share of delayed net carry, down from $1.1 billion as of the second quarter. This fourth quarter reduction was driven principally by a secondary transaction for Verallia during the quarter.

As a reminder, Fund VIII remains in full carry with a current gross and net IRR of 16% and 11%, respectively. The clawback obligations of $0.31 per share that we report in our earnings release are related to older legacy funds, including Fund VII and Natural Resources I, are specific to those funds and are not cross collateralized across other funds. As we have noted in the past, we do not expect any of these clawback amounts to become cash obligations for at least several years from now.

Deployment in our funds was $2.5 billion and our drawdown funds was $2.5 billion in the fourth quarter and $17 billion for the full year, in line with annual averages. Our broader measure of deployment, which reflects the breadth of our origination business, was again strong at $24 billion for the fourth quarter and $88 billion for the year. Fourth quarter deployment was supported by the large origination activities Josh highlighted as well as a pickup in middle market and commercial real estate lending. Our dry powder for investments across our fund complex was $47 billion at the end of the quarter, of which $21 billion has the potential to drive management fees when invested.

On performance. Moving on to investment performance during the fourth quarter, our private equity funds portfolio appreciated by 13%, driven by strong performance across our fund's public and private holdings. Fund VIII and Fund IX appreciated by 10% and 17%, respectively, driving an increase in the net carry asset to $1.82 per share. Fund VIII is now marked at a multiple of invested capital of 1.6x, and we expect it to continue to create value as the portfolio matures. Fund IX crossed into carry for the first time in the fourth quarter. For the full year, our private equity funds portfolio appreciated 6.9%, which compares favorably to the performance of the S&P Value Index, down 1.4%.

In credit, our fund's aggregate portfolio returned 4.4% during the quarter. Through a very volatile year in the credit markets, we were able to protect our portfolios on the downside and outperform broader indices. Notably, for 2020, our global corporate credit business generated a 6.7% total return, reflecting over 300 basis points of outperformance to its benchmark.

In addition, the performance of broadly syndicated loans in our credit portfolio exceeded the S&P LOI by approximately 140 basis points for the year. High-yield bond performance exceeded the BofA Merrill Lynch high-yield index by nearly 800 basis points for the same period. Our strong credit performance has been driven in part by the excess spread we have been able to generate for our insurance clients, which stands from our differentiated and expanding origination capabilities.

In real assets, our overall return for the quarter was up 3.1%, driven by broad appreciation across the portfolio. Energy continued to have a de minimis impact on our performance in both private equity and credit this quarter.

Apollo remains in a very strong liquidity position with approximately $1.6 billion of liquidity available on our balance sheet. Our net economic balance sheet after debt and preferred stock was approximately $4.80 per share at December 31, ahead of the $4.25 at the end of 2019 and prior to the pandemic-induced selloff.

To echo Josh, we're very pleased with our 2020 earnings, driven by robust growth and resilient fee revenues. We're appreciative of the support that we have received from employees, shareholders, investors and partners throughout the year and look forward to engaging with you all further in 2021 and beyond. With that, I'll turn the call back to Peter.

Peter Mintzberg
Head of Investor Relations
Thank you, Martin. That concludes our remarks for today. Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Glenn Schorr with Evercore.

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Maybe one for Marc. Just up at the top, big picture, I think it's good to see -- back to the growth and growth on the front foot. But with credit insurance, let's call it, 75% of assets, private equity already huge and great. I'm just curious, as you think about building for the next decade, where real estate infrastructure, retail, capital markets like the other areas to grow and broaden Apollo to help investors with your mission. I'd be curious to get your thoughts on that.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Okay. You touched on some of it, but I'll start with how I think. The limit on our growth, which you're referring to, is not the ability to raise money. It's the ability to deploy it sensibly in an Apollo-esque manner. In the private equity business, we are large. We will continue to grow, but you're right, that will not be a source of massive growth. The credit business is large in a sense that we talk about.

But in the context of the markets that we participate in, we're just beginning. We have an amazing opportunity in credit, particularly with respect to origination. In the real estate market, which you also touched on, we have an immense real estate footprint. We simply don't group it in our financials or in our assets because much of what we do in the real estate business is in yield rather than in opportunity. We are building the real estate business.

The real estate business is raising funds in the U.S. opportunity market, in the Asian opportunity market, in the net lease market, in the debt market and in the core plus market. On every one of our insurance company balance sheets, real estate is an expanding category. And I would expect our real estate business to increase. We have a lot of white space, but it has to be done in an Apollo-esque way.

Infrastructure. Infrastructure I, double-digit rates of return in the infrastructure market, back out in the market with Infrastructure II, again, an area that I expect to expand in a big way, Impact exactly the same thing. Every one of these funds, the thing that ties them together is not the desire to simply go out and raise AUM but the identification of an opportunity that we believe reflects Apollo. The Apollo investment brand fundamentally means that we believe we are taking less risk per unit of return at every point in the capital structure from investment-grade down to the most opportunistic.

To -- maybe I'll drone on for one more second. I think one of the biggest opportunities we have is to massively expand our front end, which is our capacity to generate returns. This is bringing on board teams. This is buying in platforms. This is also building organically from initiatives already underway within Apollo. I'll stop there.

Operator

Our next question comes from Craig Siegenthaler with Credit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

My question is what is the potential time line for the full C-corp conversion?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

So we'll break, Craig, into -- I'll give you an initial response, and then I'll turn it over to Martin. So as I mentioned, we have asked our independent committee to promptly study and give us recommendations with respect to moving to one share, one vote and the other changes necessary to be eligible for broad index inclusion, which would include a full C-corp conversion. I would expect we will hear back from them no later than our next conference call. With that -- as to the specific steps, I'll turn it over to Martin.

Martin Bernard Kelly
CFO & Co-COO

Yes, Craig, there's different ways that you can achieve inclusion in indices, and so we're very familiar with what they are. And so we're just -- they have different impacts and different time lines associated with them, frankly. So we're working through all the details around that and the approvals that will be needed from different constituents in view of what different outcomes might be. So we're -- we know what's ahead of us. We're working through all the considerations, and then we'll update you in due course.

Operator

Our next question comes from Alex Blostein from Goldman Sachs.

Alexander Blostein
Goldman Sachs Group, Inc., Research Division

Marc, I was hoping to dig in a little bit more into the LP feedback since the completion of the investigation. You mentioned that you expect fundraising dynamics to build significantly from here, so maybe spend a minute on sort of the path and the time line for this acceleration. Which strategies do you expect to be most active contributors to the fundraising outlook for Apollo over the next 12 months? And then when you take a step back, are there common characteristics between LPs that are sort of satisfied with the process and the results of the investigation versus those that sort of need more time, as you said in your earlier remarks?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Okay. So I'll hit it up front. As to the specific strategies, I'll turn to Scott and Jim to talk about the strategies that are active in the market and where we think we're going to make the most progress in 2021. We've done a lot of limited partner and consultant calls. That's just -- not just me. That's the entirety of our team. The vast majority of feedback from the LPs and consultants to date has been positive.

They appreciate the seriousness and transparency and thought that we have put into this process. ESG are not just 3 initials to them or to us. This is something that we have to live every day. They have acknowledged that the report by Dechert substantiated what we told them, no involvement by Apollo or its employees and no wrongdoing on Leon's part. And they've commended us on the actions we've taken with respect to the governance changes and the succession planning.

For the vast majority of LPs, that will be enough. They think we've struck the right balance. For some LPs, as I've said, they will want to see how these changes develop. And for some, they will want to see these changes fully implemented. I do not believe that there is a specific characteristic across limited partners who perhaps are fully satisfied versus those who are less than fully satisfied at this point in time.

But I will note with $455 billion of AUM and 1,500 institutional investors, something is happening in our funding business almost every day. In the fourth quarter, a number of people hit pause, simply to wait to see the outcome. I believe in the first quarter, we will see some of that pause simply come through, and then we will get stronger every day. As to the specific products, why don't I start with Scott, and then Scott will hand it to Jim.

Scott M. Kleinman
Co-President & Director

Sure. So look, on the opportunistic side, as Marc touched on a little bit earlier, we're in the market now with infrastructure, with Asian real estate, with impact. We are -- we have raised and continue to raise additional SPACs. We'd expect to see more of that. We have some new products that we're working on that, in all likelihood, will be coming out in a meaningful way this year as well. On the credit side, a number of evergreen funds that are -- have been fundraising and continue to fundraise large-cap originations that often syndicate to our LPs as well. So quite a bit of activity expected for 2021.

Operator

Our next question comes from Robert Lee with KBW.

Robert Andrew Lee

Keefe, Bruyette, & Woods, Inc., Research Division

And Marc, quite a move from sabbatical to CEO. So hope congratulations are in order for you. I'm just curious there's a lot of -- going on in terms of investment in the business. Can you maybe update us on how you're thinking about how these initiatives, we should be thinking about how they will impact kind of FRE margins going forward? You're already pretty high investment -- best in class. So where do you think we go from here is, I guess, my first question.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Okay. Why don't I take that? So clearly, in hindsight, taking a sabbatical in the middle of pandemic is a very bad idea. First, I went nowhere and I did nothing. But in some sense, it actually accomplished everything it was supposed to accomplish. The first half of 2020, I worked like an associate new to a firm. We closed 2 of the largest insurance transactions in the insurance marketplace. And by the end of June, I needed a little bit of a break.

And when I say it accomplished what it was supposed to accomplish, with me sitting there every day, the team that is way smarter than I am, that really makes things happen in the insurance business, never got to spread their wings. We now -- with 6 months that have passed, we've settled into a routine that is completely sustainable, where I am involved in those things that add value, where I can add value, but where the day-to-day responsibility is in the hands of people who, as you will meet them in our various investor presentations, you will come to the same conclusion that I have, which it gets better once you get past me.

As it relates to FRE margins. I'll put it in the context of more of our 5-year plan. 15 months ago, we sponsored an Investor Day. And I believe when we rolled out the target and we said $600 billion of AUM, I was watching the audience, a number of faces dropped and thought that goal was unsustainable or unrealistic. 15 months later, we're halfway toward that target. The outcome of that target, since AUM is the fundamental driver of revenue, is mid-double-digit growth for a very long period of time.

As to growth and investment in any particular year, it is not the revenue or the AUM that I so much focus on or that you should be focused on. The decision in any given year as to whether we will grow double digit, low or double-digit high, will be primarily driven by the pace of investments in the front end, and we balance that very carefully. As you've heard me say already, I believe we are in a growth business.

We serve people who are desperate for yield. Our institutional business is growing. Our insurance business is growing. Our retail business is growing. We need to make sure we grow the front end, consistent with the AUM potential we have, rather than focus on growing AUM. Hopefully, that answers your question.

Operator

Our next question comes from Ken Worthington with JPMorgan.

Kenneth Brooks Worthington
JPMorgan Chase & Co, Research Division

Maybe more broadly in private equity. Apollo tends to be a value investor and U.S. market valuations are elevated based on a historic perspective. I know your announced pipeline looks quite good, but valuations are now quite elevated. And should we expect the pace of investment to start to slow here? And then maybe on a tangent, does the SPAC market grow big enough to maybe further drive competition here, making it even harder to invest new investor dollars?

Scott M. Kleinman
Co-President & Director

Sure. So look, as I've said in the past, market indexes aren't necessarily a good indicator of what's going on across the breadth of the market. The pipeline in the PD business is really stronger now than it's been at any time even through the crisis. And so I would expect, if I had to estimate, a bigger-than-average deployment year in private equity this year, just based on what we're seeing and what we have teed up even in the short to medium term. So I actually think deployment across private equity, hybrid value, a number of our other opportunistic funds, notwithstanding the market backdrop, is still incredibly strong.

As far as your question around SPACs, look, we ultimately see SPACs as an interesting asset class. It is not a flash in the pan. SPACs are here to stay for a lot of fundamental reasons. In some respects, is it competition? Sure, but we've always had competition. If anything, Apollo has now proven our ability to successfully issue SPACs. We've issued a number.

We have several more in the pipeline and see it as a real opportunity to add to the asset category footprint that we have. And I think you'll continue to see that be an increasing part of how we approach the market across the spectrum of risk and return.

Operator

Our next question comes from Bill Katz with Citigroup.

William Raymond Katz
Citigroup Inc., Research Division

Okay. And Marc, congratulations as well. Maybe a question for Martin, just to tie it together some big picture with maybe the operational side of things. Could you dimension in the fourth quarter how much of the G&A or other expenses were related to the inquiry? And then as you think about 2021, could you dimension a little bit about where you sort of see either comp ratio or the noncomp FRE drivers just given Marc's commentary about growing the front end?

Martin Bernard Kelly
CFO & Co-COO

Sure. So I think, Bill, the step-up in Q4 from Q3 on noncomp was effectively explained or was explained by the cost of the review. And so as we look forward, it's a slightly different answer for comp and noncomp. We are growing. We've added head count, and so it's natural to expect that the cost of the firm continue to increase. On the noncomp side, we're looking at and we're engaged in new premises in many offices around the world, including both New York and London. That comes with a cost.

And so we manage noncomp very carefully and tightly. But as the head count growth of the firm increases and the need to support all our employee base increases, then so do the costs. Comp comes back to -- I put that in the context of Marc's comments, and that is we focus on FRE growth, and we manage FRE growth relative to investments in the platform and building out the origination side and all the support that's needed for that with the revenue growth that comes with that.

It's not a straight line, but we are very -- we have strong conviction in our mid-teens FRE growth rate as we look forward from here. And I would just echo Marc's comments that there's a range around that. It could be low double digit. It could be mid- to high teens in any 1 year, but we manage that based on the opportunities to grow the platform in view of when we think the revenue will come.

Operator

Our next question comes from Patrick Davitt with Autonomous Research.

Patrick Davitt
Autonomous Research LLP

I guess the fundraising, the 2021 fundraising from a different angle. I think you said around $49 million, $50 billion of the gross inflow last year was what you consider organic. So as you think about all the stuff you listed that's in the market or expected to be in the market this year, what do you think is a good range for gross fundraising relative to that number, excluding your view of what Athene and the Athora deal volume could be?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

So I'm going to start, and then I'm going to turn it, I guess, to Martin. I think it's important to understand how we come at this holistically. So there is Athene and Athora deal volume. But as you know, we are in the [retail] market every day. This year, organic growth at just Athene, north of $20 billion. We are among the largest providers of alternative asset services in the retail marketplace. We elect to do that, though, in the form of guaranteed income rather than in the form of funds.

We can, at a later date, explore the efficiency of that. When we start a new fundraise, no matter which fund it is, we start with a very important anchor relative to almost anyone else in our marketplace. And that anchor is our massive permanent capital vehicles. They are, as you know, mostly allocated to yield alternatives, which is -- high grade. In fact, yield alternatives, which is how their business runs, but roughly 5% of their portfolio is allocated to alternatives.

Making sure that we deliver adequate alternative assets to our insurance platforms is a very important part of achieving the overall returns of the insurance company, and it actually has a second benefit. It aligns us to a much greater degree with our investors in that we own, in some instances, 15% or 20% of a new alternatives fund relative to what a GP commitment might be. So with that intro, I will then turn over to Martin.

Martin Bernard Kelly
CFO & Co-COO

Great. So I'll just put some -- a bit more color around that. We typically raise -- away from a year when we're reaching a big flagship fund in PE, we typically raise somewhere between $15 billion and $20 billion of third-party capital. And then in addition to that, we have organic growth at the insurance platforms, plus we have insurance M&A. And then we have further deployment of assets in our insurance platforms as we reposition their balance sheets. So without any sort of unusually large M&A, without any flagship, you're in the range of $40 billion to $50 billion a year, give or take, and then with upside from there, driven by the other 2 components.

Operator

Our next question comes from Michael Cyprys with Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

I was just hoping you guys could maybe provide a little bit of an update on some of the direct origination platforms that you've been building out, ranging from mid-cap, aircraft leasing, some of the newer ones. How are those progressing? And maybe you could just talk about your plans for building those out further from here, whether it's in terms of head count adds, other appetite for other asset classes and such?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Perfect. Jim, why don't you take that?

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

Great. Thanks, Mike. Certainly, I would say, let's talk about the assessment of what we have in place versus growth. So as you highlighted, mid-cap and PK, both platforms that we entered '20, strong objectives. And notwithstanding the challenges of March and April, strong years in both, strong ROE at mid-cap and growth in the platform across all its activities.

Same case with PK and Merx where we put capital to work throughout the year and strong performance and a balance sheet that comes out in pristine shape. Both of those entities have a variety of great liquidity and additional equity that is -- will be attaching or attracting over the several months. So great growth out of those 2. Marc also highlighted activities in the net lease space in the core plus and core space over in Europe and the U.S., 2 big growth areas for us.

And I suspect this year, you'll see not only additional capital raise, but deployment really, first and foremost, from our insurance balance sheets, as Marc described, but also across the board from institutions as well, which we're seeing a great demand from companies to think about how they think about their real estate considering what's gone on in 2020. So a very, very strong pipeline there.

I would say, also you know we talked a lot about AOP (sic) [ASOP], our large-cap origination platform, very healthy start to the first quarter of '21. And finally, a lot of activities that you saw as a result last year, whether it was the ADNOC transaction, whether it was the Hertz securitization and DIP, whether it was the ABI transaction in the fourth quarter. So this whole large-cap and high-grade alpha, which we are having a very, very strong end on so we see that -- those are really the drivers.

And as Marc and Martin pointed out, we find ourselves in the enviable position that intellectual capital coming from the institutional sell-side from the big banks, we are a partner of twice as they decide. And last year, across the firm, we brought in over 300 people. Many, many of those were high-quality individuals that we added to our origination platform. So we feel like the opportunity has never been as strong as we sit here in the first quarter of '21.

Operator

Our next question comes from Jeremy Campbell with Barclays.

Jeremy Edward Campbell
Barclays Bank PLC, Research Division

Martin, just getting a couple of questions from investors this morning here on the performance fee side of the equation. I know you had a little color about Fund VIII, a couple of hundred million still left there. But just wondering if you -- and I know it's a little market-dependent, but wondering if you have any line of sight around when Apollo might be able to work through those issues and we can start seeing funds -- fees show back up in the P&L in a more robust fashion for private equity.

Martin Bernard Kelly
CFO & Co-COO

Yes, Jeremy, we're virtually through the delay in realizations resulting from the impairment. In my comments, I referred to a $0.06 delay. So the next $0.06 of what would otherwise be no carry coming out is to the LPs. And then after that, we're in the clear. And so any monetizations from them will create carry.

I think the further benefit is, as Fund IX continues to invest and as Scott mentioned, with a healthy pipeline in front of us and now being in carry, we have a good line of sight into multiple years of Fund VIII realizations with Fund IX tacking on to the back end of that.

So the clawback is not an issue. It's specific to old funds. It's not specific to Fund VIII at all, and so that's not an issue in terms of realizations. So I think as we look forward, there's a ramp in front of us to get through into what we see as a more normalized monetization period and carry coming through the PE business.

Operator

Our next question comes from Mike Carrier with Bank of America.

Michael Roger Carrier
BofA Securities, Research Division

I'm just seeing your comments on focusing on growth for the firm. Obviously you guys have done a good job from an organic standpoint. So maybe away from insurance, just wanted to get your update on appetite for pursuing M&A to expand either in different strategies or geographies as we've seen some of your peers do.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Okay. Again, I'll start, and then I'll hand it to Jim and Scott. And first, thank you for your comments, and I look forward to -- at our next Investor Day, exploring what I'm about to say in more detail. But to be provocative, I believe we're going to see more change in our industry over the next 5 years than we have in the past 10. If you step away and just think about what's happened, we've had a decade-plus of financial repression, where investors who were relying on a certain set rate of guaranteed return or fixed income return have been unable to achieve that, and they've been pushed further and further out on the risk spectrum to try and achieve any kind of normal return.

To date, that return has been met because we've been in a very interesting market. At the same time, what we've seen is we've seen 2 other -- perhaps 3 other really big trends. Trend one is indexation. The more and more a market gets indexed, the more things fall out of an index and create interesting opportunity.

Second is correlation. And the third is volatility as we're seeing in spades in this market. All three, I believe, present interesting opportunities for us to invest around, for us to augment our franchise in ways perhaps unexpected. And with that, I'll see if Scott wants to add anything.

Scott M. Kleinman
Co-President & Director

Yes. Look, I think as we continue to grow into geographies, into products, into sectors, we're always looking at can we build it ourselves, can we bolt on small teams or do we have to take larger steps and make more sizable acquisitions. And so all of that's completely on the table. And as we just pursue these different options, I think you'll see more of a mix of all of that going forward.

Operator

Our next question comes from Devin Ryan with JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay, great. I just want to talk a little bit more about the deployment backdrop and then maybe coming at it from some of the comments you just made, Marc. I mean the perspective here is that the credit backdrop has recovered dramatically. Risk assets are at highs or close to it. And I know Apollo is always thinking about the upside opportunities but also the downside risks.

And so in a backdrop where it doesn't feel like there's being a lot of risk priced in broadly, how is that informing kind of the views on deployment? And I guess, what are some of the things you're looking at that are maybe different around deploying capital into this environment?

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Sure. Why don't I hand that to Jim to start?

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

Sure. I mean I really think the answer to that is looking back in our performance in '20. If we had sat here a year ago and we described for you the litany of transactions from ADNOC to Expedia to Albertsons to ABI to both Hertz transactions, you would have said those were going to come out of the auspices of the banks. That was their regime. That's their opportunity.

And so we have found ourselves in the enviable position of having expertise on sourcing, structuring, taking down and potentially syndicating those transactions. So the theme that we've talked about for several years, the evolution of intellectual capital from The Street to the buy side, the search for yield, the regulatory environment, our footprint, all the themes that Marc and Josh have been highlighting here, we just see those accelerating.

And when we think about our pipeline for those transactions, which we think there's really just a handful of firms in the world that can do the execution I just mentioned, that's what excites us about our ability to grow. And also, it's just -- it's the feedback loop to focusing more and more on that front end, as Marc described. So I think the evolution of the business is constantly changing.

Regardless of what happens in the regulatory front, we think that our robust model from sourcing and execution is really unmatched. And we expect that to continue not only in the U.S. but to continue around the globe in Europe and in Asia. And in our view, that's a real highlight of our growth opportunity.

Operator

Our next question comes from Chris Harris with Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Great. So there's been a lot of focus, obviously on existing LPs and their willingness to reallocate to Apollo. Now that the review is over, can you talk a bit about the prospects for an expansion of Apollo's LP base?

James Charles Zelter

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

Sure. This is Jim. I think I can't emphasize enough. As Marc said, we are a massive platform of $425 billion. We have thousands of institutional investors and certainly, we see what's going on in the evolution of savings with regard to the wirehouses, RIAs and several others. And I think you should expect to see us expand that types of fundraising channels in the appropriate yield channels over the coming year and years ahead.

We have brought on some folks to do that. We have augmented the team, and part of our budget in '21 and '22 will be to really accelerate that. I do think that when we think about our platform and the conversation that's going on about distribution channels, we think we're particularly well suited to do so.

Again, if you look at the -- I know there's a question earlier about our pipeline of products. We currently have about 11 products in the market, 4, 5 of those are really evergreen. The other 6, 7 are the episodic ones that Scott mentioned. And certainly, there's a scalability to a variety of things, whether it's our Accord Series, whether it's our TRF Series, whatever we have going on in core and core plus. So we feel that we have a great portfolio to apply to that diversification. And again, I think we have a great list of institutional LPs, but certainly, there's ways for us to expand that on a continued basis as well.

Operator

Our next question comes from Gerry O'Hara with Jefferies.

Gerald Edward O'Hara
Jefferies LLC, Research Division

Great. Perhaps one on the insurance outlook. I mean, clearly, more entrants, more competition. So just kind of curious as to kind of any context or commentary you might be able to add as it relates to just more competition in that market. And also, on a related basis, how we should think about the repositioning of last year's acquisitions. For example, did the market environment allow for an acceleration of that? Are you maybe more than 50% through it? Or just some kind of context as it relates to those portfolios.

Marc Jeffrey Rowan
Co-Founder, CEO & Director

Okay. It's Marc. I'll start with your second question and work backwards, which is to say, I'm not going to steal Athene's thunder. They will be announcing results on the 17th. But in the commentary they've made to date, I know they are very pleased with how things are going. And some of the transactions that both Jim and Josh alluded to were anchored by our insurance company balance sheets, both in the U.S. and in Europe.

Competition in any market is inevitable. People have seen now what we have built over the last 11 or 12 years, and I assure you that we have paid substantial tuition. Buying something is not the same as integrating your business with an insurance company. Every morning at Apollo, there are 150 people who wake up and do nothing other than insurance. The plumbing, the piping, the understanding of how assets get onboarded onto an insurance company balance sheet is different than making investments in insurance. It's different than managing money for insurance companies. It's a fundamentally different skill set.

To delve in, perhaps more than you wanted to, what we have succeeded in doing in the insurance business is to create a virtuous circle. Insurance is a capital-intensive business. Every time you grow in insurance, you have to raise capital to support that growth from a regulatory point of view. What we have done is we have gotten to be so large and so profitable that we generate significant amounts of internal capital so that we are able to continue to grow without necessarily raising new capital.

If we want to grow really fast, yes, we augment the balance sheet by, again, integrating limited partners or integrating specific funds into our insurance company acquisitions. But it all starts with having a profitable insurance business.

If you look at our public entity, Athene, Athene has grown north of 15% since inception in terms of earnings. Any growth, any asset management, has to be good for the underlying client, whether that client is a limited partner, whether that client is a retail investor or whether that client is an insurance company. This is all about balance, and I'll come back to where Jim ended and where I started.

We are not limited in our growth by the amount of money that can be raised. With our -- that's not true for every fund and every product. But across our platform, if we want to raise more money, we can be more aggressive in the reinsurance market. We can be more aggressive in the retail market. We can be more aggressive in the FABN market and so on, and so on and so on.

What we need to do is we need to have growth of the front end consistent with growth in the back end because for an insurance company, particularly in the businesses that we're in, it's about earning adequate spread on a risk-adjusted basis. For our institutional and retail clients, it's about earning adequate return for the risk they undertake. The limiter of our growth is not our ability to raise AUM from any source. It is the ability to scale the front end of our business, which should be our primary focus. And if we're good at that, AUM will take care of itself. Hopefully, that answers your question.

Operator

That's all the time we have for questions today. I'd like to turn the call back to Mr. Peter Mintzberg for closing remarks.

Peter Mintzberg
Head of Investor Relations

Thanks again for joining us today. We look forward to speaking with all of you again next quarter.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.