S&P Global
Market Intelligence

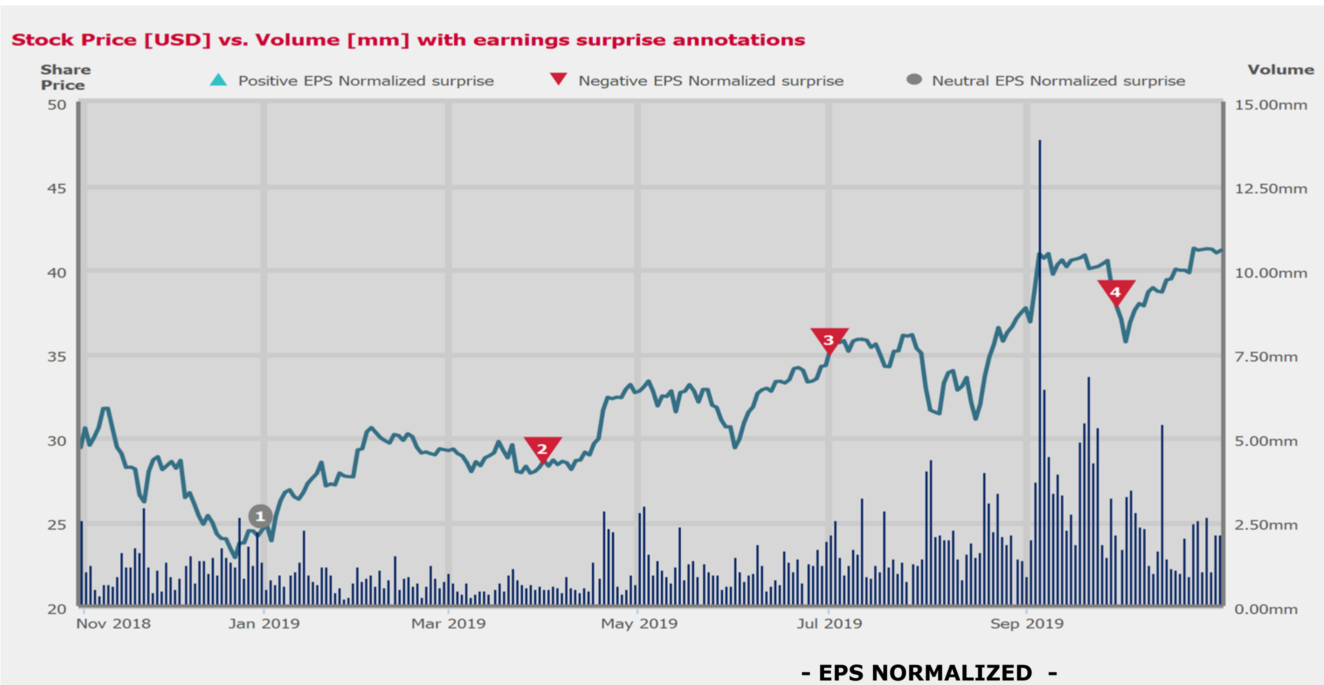
Apollo Global Management, Inc.
NYSE:APO
FQ3 2019 Earnings Call Transcripts

Thursday, October 31, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.54	(6.90 %)	0.73	2.34	2.91
Revenue (mm)	406.92	401.38	(1.36 %)	411.25	1605.68	1784.59

Currency: USD
Consensus as of Oct-31-2019 11:59 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	(0.82)	(1.01)	NM
FQ1 2019	0.64	0.50	1 (21.88 %)
FQ2 2019	0.57	0.56	2 (1.75 %)
FQ3 2019	0.58	0.54	3 (6.90 %)

Table of Contents

Call Participants

EXECUTIVES

Gary M. Stein
Head of Investor Relations, Client & Product Solutions

Gary W. Parr
Senior Managing Director

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

Joshua J. Harris
Co-Founder & Senior MD

Martin Bernard Kelly
CFO, Co-COO & VP

ANALYSTS

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Brian J. Mckenna
JMP Securities LLC, Research Division

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Gerald Edward O'Hara
Jefferies LLC, Research Division

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Michael J. Cyprys
Morgan Stanley, Research Division

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Patrick Davitt
Autonomous Research LLP

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

William R. Katz
Citigroup Inc, Research Division

Presentation

Operator

Good morning and welcome to Apollo Global Management's Third Quarter 2019 Earnings Conference Call. [Operator Instructions]

This conference call is being recorded. This call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements. Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the Company's website.

Also, note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Apollo fund.

I would now like to turn the call over to Gary Stein, Head of Investor Relations.

Gary M. Stein
Head of Investor Relations, Client & Product Solutions

Great. Thanks, operator. Welcome to our third quarter 2019 earnings call. Joining me this morning are Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelley, Chief Financial Officer and Co-Chief Operating Officer; Jim Zelter, Co-President; and Gary Parr, Senior Managing Director are also here with us and will be available during the Q&A portion of today's call.

Earlier this morning, we reported distributable earnings of $0.54 per share, which led to a cash dividend of $0.50 per share for the third quarter. The quarters distributable earnings were primarily driven by pretax fee-related earnings or FRE of $0.52 per share.

As a reminder, we will be hosting an Investor Day next Thursday, November 7th, and we look forward to engaging with all of you there.

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

Joshua J. Harris
Co-Founder & Senior MD

Thanks, Gary, and thanks, everyone, for joining us. Looking back on our performance over the third quarter and the last 12 months, we continue to move the path forward in terms of our financial results, as well as our strategy. Regarding our financial performance, we've grown AUM and fee-generating AUM 19% year-over-year, while FRE has grown by 30% during the same period.

From a strategic standpoint, we have also been active in a number of ways. First, on September 5, we completed our conversion from a publicly traded partnership to a C Corporation. We've been very pleased with the reaction since we announced our conversion and we believe the positive effects are already becoming evident.

Our average daily volume has more than doubled from pre-conversion levels to 2.6 million shares currently. We have recently been added to the CRSP indices, which for example, resulted in the purchase of nearly 13 million shares by Vanguard at the end of September.

We've seen a meaningful shift in Apollo's ownership base towards large institutional investors since we announced we will be converting. We believe the growth in long only and passive ownership of our stock has only just begun. And it's already grown from 35% of our float to more than 50%.

We think we're only in the middle innings in terms of realizing the benefits of our C Corporation conversion. And believe we will continue to see a transition of our shareholder base going forward, which we expect to be added to additional indices over the next few months, such as MSCI. And we've also been actively engaging with large, long-only institutional investors that could not own our stock prior to conversion. Ultimately, based on what we have seen from some of our peers that converted before Apollo, we believe that more than 70% of our public float could be owned by long-only and passive investors, which would be more than twice our level prior to conversion.

In addition, as many of you know, earlier this week we announced a strategic equity exchange transaction with the team. Through this unique transaction, we are more than doubling Apollo and certain of its related parties and employee's ownership stake in Athene from 17% to approximately 35%. At the same time, Athene will be eliminating its dual-class structure and taking in approximately 7% stake in Apollo, making -- marking the first time that they will have a direct economic interest in our financial success.

In total, we are investing $1.55 billion in this transaction, which includes the exchange of $1.2 billion of common equity with Athene and the purchase of an additional $350 million of Athene common stock. As we said on Monday, we're doing this because many investors were telling us that the structure of Athene super-voting shares held by Apollo, was a negative on the valuation of Athene and Apollo shares.

For Athene the concern was that Apollo did not have enough capital of risk while managing the assets. So there was an unfounded concern Apollo might take too much risk or cause Athene to grow unprofitably. For Apollo, there was concern that Athene would want to change the asset management contract because we were not fully aligned with them. Although we thought the concerns were unfounded, we listen. We believe we now have a stronger -- we now have stronger alignment to ensure the durability of the relationship.

We believe our investment in Athene is a great example of our highly efficient use of Apollo's balance sheet to pursue strategic capital initiatives. And in case of Athene pro forma for this transaction Apollo will have an investment in Athene's equity, valued at approximately $2.3 billion, which has helped create and grow the business where we manage approximately $125 billion of assets.

In connection with Apollo's ongoing efforts to drive Athene's strategic growth, we have now closed on $3 billion of capital commitments today for investment into Athene's strategic capital vehicle, which we refer to as ADIP. When this third party capital vehicle is combined with Athene's standalone capital, the cumulative buying power represents more than $70 billion in potential incremental assets for Athene through M&A and pension risk transfer transactions.

In addition to the C-Corp conversion and Athene transaction, from a strategic standpoint, we've also continued to make progress on building out Apollo's direct origination platforms. During the quarter we announced the acquisition of GE Capital's, industry-leading aviation lending business, PK AirFinance, which is highly complementary to our existing [Technical Issues]. Also during this quarter MidCap Financial, specialty finance firm managed by Apollo Capital Management acquired a franchise finance business, from PNC Bank broadening their range of origination capabilities. We've continued to make significant progress in terms of expanding our origination platforms. We very much look forward to sharing the details with you at next week's Investor Day.

Before I turn the call over to Martin, I'd like to make a comment about our senior leadership team. We continue to be focused on building a great product. We've been promoting hiring and developing the best and the brightest in the industry in a variety of leadership positions. And we look forward to sharing more details about this and our Investor Day.

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

Martin Bernard Kelly
CFO, Co-COO & VP

Great. Thanks, Josh. Starting with the results for the third quarter. We continue to demonstrate the strength, stability and growth of our fee-related earnings on a year-over-year basis which supported distributable earnings of $220 million or $0.54 per share. Pre-tax fee-related earnings of $213 million, or $0.52 per share were complemented by modest realized performance fees and realized investment income, principally generated by a private equity segment.

For the 12 months ended September 30, 2019, FRE totaled $2.23 per share, reflecting 30% growth over the prior year period. This growth was supported by 19% management fee growth and an emphasis on efficiency and cost discipline, driving margin expansion. In the third quarter management fees grew 3% quarter-over-quarter and 11% year-over-year driven by strong inflows across the platform.

Advisory and transaction fees were lighter in the quarter due to the timing of deal closings. We expect fourth quarter advisory and transaction fees to increase based on several transactions that we expect will close within the quarter. Costs increased in the quarter driven by increases in headcount as we invest in our business.

Performance fees grew quarter-over-quarter, but remain modest, consistent with our expectation, the performance fees will be more backloaded for the year. We declared a $0.50 per Class A share dividend in a light realization and light advisory and transaction fee quarter, bringing the total Class A cast distribution for the 12 months ended September 30, 2019 to $2.02 per share.

Turning to investments performance. Our net accrued performance fee balance grew 25% in the quarter, supported by positive marks across our private equity credit and real assets businesses. And reached its highest level in nearly 2 years. In private equity the funds we manage appreciated by 3.6% in the quarter, despite some energy headwinds, as revenue and EBITDA growth remained consistent with long term trends.

The successful IPO at the beginning of the fourth quarter, and increasing visibility into other monetization processes also added support to third party marks -- third quarter marks. Our Funds, private portfolio company holdings appreciated by 4.6% during the quarter, while the Funds public holdings depreciated by 0.6%, impacted by mark-to-market adjustments on debt investments.

Importantly Fund VIII appreciated by 7.6% in the quarter, bringing 2019 year-to-date appreciation to approximately 17%. In credit, we generated positive performance across the board, with gross returns of 1.8% for each of corporate credit and structure credit, and 2.9% for direct origination; outperforming the S&P leverage loan index total return of 1% and the Merrill high yield index return of 1.2%.

Within our credit business, energy constitutes just 2% or $1.7 billion of that credit AUM excluding Athene. And during the quarter, there was negligible impact to credit results from energy. In real assets performance remained strong with aggregate appreciation excluding real estate debt of 4.6% for the quarter and approximately 11% for the 12 months ended September 30.

I'd now like to move on to asset growth which forms the basis for growing management fees and ultimately fee-related earnings. During the third quarter Apollo sold gross inflows of $16 billion driven by Athene and Athora flows and capital raising across a number of funds. We held first closes for our FCI 4, U.S. real estate 3, and navigated funds during the quarter. Navigated represents our first dedicated fund related to aircraft leasing, a strategy we've been active in for many years. During Q3, we closed on $500 million for our aided fund and as Josh mentioned, we just closed on an additional $1.5 billion.

Over the last 4 quarters, gross inflows have totaled $75 billion. Now asset raising remains robust, consistent with the growth trends we've been able to demonstrate not just over the past 3 or 5 years, but since our IPO eight years ago. Within credit fee-generating inflows totaled $9 billion during the quarter and $48 billion over the 12 months ended September 30, 2019. Looking head, we remain confident in our ability to drive strong AUM growth across the platform, fueled by fundraising across strategic capital initiatives, vehicles focused on strategies within each of our businesses and ongoing capital raising for managed accounts.

With regards to deployment funds managed by Apollo put $3 billion of capital to work across commitment based funds. And over the last 12 months capital deployed and commitment based funds was $17 billion. This is in addition to capital we've put to work across managed accounts, evergreen funds and other investment structures.

During the quarter private equity fund line closed on its private acquisition of Shutterfly, which marks the 12th public company within the last 4 years to be taken private. In addition, our Hybrid Value fund remained active and is now approximately 40% committed or invested after having just held its final close in March, reflecting the strong pipeline in place for our newest private equity strategy.

Looking ahead, we continue to identify and evaluate an active pipeline of investment opportunities across a broad spectrum of asset classes. And we are optimistic about our ability to deploy capital at a solid pace in various market environments.

Finally, as it relates to realizations, we sold shares during the [indiscernible] IPO earlier this month, and have visibility into several transactions, some of which have already been announced that should contribute to fourth quarter performance fees. As we mentioned during last quarter's call, we also expect that the crystallization of carry in several credit funds should be additive to Fund VIII monetizations in the fourth quarter.

Partly offsetting these high realizations in the fourth quarter will be an elevated profit share expense of approximately $50 million related to our incentive pool. Depending on the timing of the close of the sale of [indiscernible], we expect that net carry realized in 2019 will be in line with or higher than it was in 2018. With that, we will 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] Our first question comes from line of Craig Siegenthaler of Credit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Can you walk us through the composition of the $8 billion of credit inflows and the quarter by product?

Martin Bernard Kelly
CFO, Co-COO & VP

Sure. Most of that was coming through Athene actually. So the total capital platforms contributed a majority of that, but Athene organic flows, a pension deal that they did as well as increases in sub-advisory mandates across both Athene and Athora. And then I call out the other funds that I mentioned in the remarks.

Operator

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

William R. Katz
Citigroup Inc, Research Division

Okay. So maybe I'll sneak in a two-parter. I guess on the simulated earnings margin, I'm sort of wondering if you could give us a walkthrough how you see that progressing as we go into 2020? And then could just clarify the $50 million profit share of what is prompting that relative to the realization activity? Thank you.

Martin Bernard Kelly
CFO, Co-COO & VP

Sure, Bill. So the margin -- as we said, we're mid-50s percent margin that's where we're expected to be. We're pleased with that. And we balanced investments in the platform and growth against revenues that we have a high conviction of. And so, I would expect that the margin, which on a year-to-date basis is mid-50s would be around about that level, as we look ahead. And it really comes down to decisions we make around future investments spend versus revenue so typically follow after your expense the investments. So we're committed to maintaining margins that what we see as best-in-class. And we manage that carefully, but I would think sort of mid-50s as we look forward. And then on the incentive pool, that's a year-to-year plan that we've used now for many years to reward individuals with compensation derived from carry. We make decisions on a year-to-year basis. And attempts to track the timing of realization. So as we expect realizations this year to be back ended in Q4, we also expect the costs for the incentive pool to be back ended.

Operator

Our next question comes from line of Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Just maybe zoning in on the Athene for a second. The $70 billion of incremental asset purchases potentially with all that excess capital that's between all these various vehicles that you guys anticipate could come in overtime. Can you talk a little bit about maybe the composition of M&A opportunities you see there, given the fact that lower interest rates probably put a little bit of pressure on the more pure vanilla fixed annuity reinsurance transactions? And ultimately, how quickly do you guys anticipate some of these transactions to come through?

Gary M. Stein
Head of Investor Relations, Client & Product Solutions

This is Gary. You couldn't get an answer that's quite like the answer even 2 years ago. And that is predicting timing, we're not able to do that. It's hard to say. Having said that, we also said couple years ago, before we did some big transactions is we have a very active pipeline. And it is interesting is, of course, the decline in rates has caused more on a number of the insurance companies. And that's actually where our competitive advantage comes through to give us an edge, and this is what creates a lot of the flow. And that is so long as we can produce some incremental spread through origination and other capabilities that means we can actually do something that makes sense where the insurers can't make a reasonable profit or get a good return on their capital. So we still see plenty of opportunity to move liabilities our way. And so long as we can continue to add that enhanced spread relative to what they can earn.

Martin Bernard Kelly
CFO, Co-COO & VP

Yes, the only thing I would add is obviously with the $3 billion we closed down recently in ADIP. It's obviously the limited partners spend off a lot of time reviewing pipeline and other things before committing those dollars. And so clearly, it's certainly not predictable. There's definitely a lot of things to think about and a lot of possible activity or that would be an indication that there is based on their funding for that commitment.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Seems like more recently, we've seen some dislocation in the leverage loan market. Seems more flow driven probably than credit driven. But just curious, if you're seeing any impact in the credit performance or in terms of financing?

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

Well, this is Jim. What you're talking about. There certainly seems to be in the leverage loan market, the new issue market a world of haves and have nots. And because of the proponents of CLO buying and their ability to own CCC paper, there's this tight basket, that the BBB, B- issuers are really having a challenging time. Companies that have wide access do very well, those that don't it's been more challenging. So that there is a bit of weakness in the leverage loan market, really in the BBB, B- sector. I would add that, while the overall economy and the markets are doing well, there's been a fair amount of dispersion this year in the credit markets. BBs are up quite strong, 7% to 8%, where CCCs 7% to 8%, so wide dispersion. And I think that just shows you the maturity of the market. For our credit platform we've really had a strategy of staying very senior, and not really playing a lot of middle-market distress that's worked well for us. So there are some pockets of weakness out there. But we -- our numbers are strong. And we feel very good with our strategy and our performance.

Operator

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

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

A question on just your assessment on PE performance. Now, I'm not losing tons of sleep given your last 30 years of performance, but last 12 months, not what it usually is. So curious how much that is a function of market environment and prices just not at the place where you normally play, but just curious on how you're looking at that.

Martin Bernard Kelly
CFO, Co-COO & VP

Yes. We've just been through review of our entire portfolio. I think that the last nine months performance is up 17 and then the Fund VIII is up 17. And you've had it's 1.5 that just about just about 3.5 years old on average. And so what you've seen is a dispersion between growth and value. And so we feel, I mean, we bought that portfolio at 6.5 times. It's -- the multiples bought back in terms of our mark. And we feel pretty good about where the portfolio is heading. And we're starting to see -- that proposed acquired at about a 5 multiple point discount to the average multiple paid for larger transactions. And I think that the mark on that portfolio is a little bit caught up in, this dispersion as well as maybe a little bit of the downdraft in energy which is behind us now. So we feel very good about where that portfolio is heading and you're starting to see it in our crude carry. And I think you'll see -- presuming that the markets hold out over the next 12 months, you're going to start to see the pickup in realizations, there as that portfolio matures.

Operator

Our next question comes from the line of Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Just reflecting on the announcement for Athene. It seemed like Athene investors were more enthusiastic about the impact for Athene than Apollo investors were. So as you reflect and you probably feel that more questions about the transactions since your call. Are there elements that you think Apollo investors are sort of under-appreciating in that transaction?

Martin Bernard Kelly
CFO, Co-COO & VP

I think that the Athene transaction, we took a very long term point of view in terms of economically aligning our ownership of Athene and their ownership of Apollo. They now participate with Apollo. And we now have a larger ownership of Athene. And we got rid of the super vote and increased our economic ownership, which we think is more highly sustainable. I mean, what we said on the call was that Athene has a tremendous amount of earnings, but it doesn't pay dividends. So from an FRE point of view, and I think this is maybe one of the things that people are reacting to, it's about 7%, dilutive. Even though some of the parts it's neutral. And if you were to include the economic ownership of Athene's earnings, it would be greater than 40% accretive. And so we obviously are going to discuss a lot more of this in Investor Day, but I think it's just going to take a while for us to get that message out. So I think we're -- and I think maybe the focus a little bit on the short term FRE dilution is what -- I think there's a tremendous amount of benefit to it. And we bought a great -- we made an investment in a great company, and it was very strategic for us. But there might be a little too much focused on the immediate FRE dilution versus some of the longer-term benefits and we're going to talk about in the earnings call. We're going to talk about all that more in our Investor Day.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay, great. Thank you very much.

Operator

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

Robert Andrew Lee

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

Great. Actually, Martin, could you -- I just want to make sure I understood it correctly, your comment about that realization expectations not so much for Q4 [Technical Issues] to say next year should be similar to was it this year or last year? I just want to make sure I understood it?

Martin Bernard Kelly
CFO, Co-COO & VP

No, so this year -- it depends on when procedure closes. So if procedure does not close this side of year-end, then this year's net carry will be in line with last year. If it does close this side of year-end it'll be more. And then as we look into next year, we expect a significant uptick in net carry in '20 relative to '19.

Operator

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

Patrick Davitt
Autonomous Research LLP

Another follow-up on the realization guide. Is it only flat to up versus 2018 because of this $50 million payout is on top of the normal payout so the gross realized revenue is actually up year-over-year? Is that the right way to think about it?

Martin Bernard Kelly
CFO, Co-COO & VP

That number is similar year-over-year. It's just -- if we don't have the realizations, then we're not going to make that payment. And so as the realizations this year, more back ended we're expecting to take a charge associated with that also on a back-ended basis, but the amount of the incentive for year-to-year is very similar.

Patrick Davitt
Autonomous Research LLP

So the percentage of growth should be similar?

Martin Bernard Kelly
CFO, Co-COO & VP

Yes.

Operator

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

Gerald Edward O'Hara
Jefferies LLC, Research Division

Maybe picking up on the on the aviation lending business for a moment. Just noting here that there was a deal done in the quarter, but also something if I heard correctly, a dedicated first-time front. Perhaps you could give a little sense on, where you see the opportunity set in that market and potential growth. It also looks like it's somewhat delineated between the credit platform and the Athene platform. So any color there would be helpful.

Gary W. Parr
Senior Managing Director

Sure. As Martin referenced, we've been in the aviation business for a while. And it's really been on the credit side where we're a midlife lessor. We started under the BBC, we started a company called Merx Aviation, over the last seven, eight years now. They have successfully deployed several billion of capital, purchased couple hundred leases. And today that portfolio has returned nice low to mid-double-digit returns very successfully. And through the knowledge of that and through the inside of the aircraft space and our asset management skills which have grown as Martin discussed we with conjunction with Athene purchased PK Aviation Finance, which was the debt provider at GE Capital. That was a business that -- from our perspective, the institutional knowledge was transferable. And from our perspective, that's a business that really is a debt provider for commercial aviation business. It's got a 30 plus year track record of very, very, very low defaults. And as part of doing that in conjunction with Athene and our affiliates, basically, what Athene is able to do is create investment grade debt securities that is very, very comparable in rating but is very greater in yield on an investment-grade basis. And in doing so, it's a real win for Athene in terms of their alternative's basket on the equity on their investment-grade debt holdings. So the PK Aviation and Navigator Finance are separate entities and separate activities. But in terms of the institutional knowledge, they are certainly the part of the beneficiary of our integrated platform.

Martin Bernard Kelly
CFO, Co-COO & VP

It's also a huge area. There's a huge need for capital, and we see it as an area that's going to grow over time. So we do think that you'll continue to hear more about us expanding that business. And we think we have unique capability. And it's, again, it's just another example of building these origination platforms that go off the run and out of the public markets. And by doing that, we're able to offer our clients, including Athene, but also our LLP clients extra return per unit of risk. And so that's -- it's a hallmark of what we do and it's another example of what we're doing.

Gary W. Parr
Senior Managing Director

And just to clarify, the transaction was announced in August, so we expect it to close in a couple of phases across Q4 and Q1.

Operator

Our next question comes from line of Devin Ryan of JMP Securities.

Brian J. Mckenna
JMP Securities LLC, Research Division

This is Brian McKenna on for Devin. So just a quick modeling question for me. The payout ratio has been just north of 90% year to date. Is that a good level moving forward? And then if I look at the DE walk up, the percent of common ratio ticked up to 56% in the quarter. So I'm just trying to figure out where that should be going forward? Because it looks like it's up a little bit from the prior quarters.

Martin Bernard Kelly
CFO, Co-COO & VP

Sure. So we'll talk more about the dividend policy at the Investor Day next week. But I think the short version of that is the policy remains unchanged. We expect to continue to pay out a majority of DE as a dividend. And we may institute some minimum related to FRE. And then on the percentage allocation related to cost save. That actually reflects some changes that we have done in conjunction with the conversion to a C-Corp where certain unitholders may charitable exchanges of units for shares. And so there's been a redistribution between [indiscernible] units in that ratio, sort of 56 to 44.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

You mentioned 13 million shares of Apollo stock was purchased by Vanguard as a result of being added to CRSP indices. Any sense on as to how much more stock could be brought based on the other indexes, you guys potentially could be added to?

Gary W. Parr
Senior Managing Director

I think -- look, I think this will play out now over the next close to a year. There's a handful of other indices that we expect to be included in. And they will each add 1 percentage point or 2 percentage points to the ownership. And then around that, we expect continue to increase by long-only investors and other funds that sort of track the index in some way. So I think the collection of all 3 of those shows momentum in the stock in terms of ownership in long only or passive hands. In the last couple of months, we've seen that ratio jumped from 35% of the ownership to almost 55% as Josh mentioned. So I'd expect to see that continue to play out over time.

Joshua J. Harris
Co-Founder & Senior MD

And I think what we said in my remarks is that when you look at other, similar peers that have converted before we did, that sort of ownership gets to more than 70% of their public float. So you could see another 15% or 20% of our float if you just use that analogy moving into more stable, like more, deep half.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

I was just hoping to circle back to MidCap, you guys had mentioned the acquisition from PNC of the franchise finance loan portfolio. So just hoping; one, you could just give us a sense of the opportunities set that you see there, maybe a little bit of an update on the MidCap platform build-out. And maybe just more broadly how you're thinking about the broader opportunities set for these sort of tuck-in acquisitions for expanding the origination opportunities set.

Martin Bernard Kelly
CFO, Co-COO & VP

Great. So for us, MidCap, a lot of talk about private debt financing in the markets and private capital and we find that most of our peers focus really on the middle market sponsor business. And it's been a hallmark of MidCap last several years to have a variety of incremental activities around revolvers and ABLs and Life Sciences. And this was a small tuck-in acquisition from PNC in terms of a franchise finance business; one where there's a long-standing history in the sector of granular risk but very, very low losses and very, very low defaults. So a nice business. It fits in very well with MidCap's doing. MidCap is running at mid-teens ROE the last 24 months and we're steadily very, very comfortable with the growth. But I think you'll see more of these small tuck-in acquisitions where it can be accretive to MidCap. It's really a specialty lending vertical. And in the changing regulatory landscape, these opportunities are still afforded to us.

And again, these are the ways that we want to. We want to stay senior. We want to have industry expertise. We want to have a long-standing experience of low losses. And if there are losses very, very high recoveries. And that's really the theme that Josh and Martin, and we've all been mentioning about really adding value on the balance sheet in terms of the asset side, because of these types of investment activity. So things are going well with MidCap. I would suspect we're in a high valuation environment. So we do things that really are accretive to book value. This was something that was done at a level that was accretive to us. But MidCap continues to march along and you'll hear more about that next week.

Operator

Our next question is a follow-up from line of the Bill Katz of Citi.

William R. Katz
Citigroup Inc, Research Division

Okay. Just 2 things I'd like to clarify. Josh, in your prepared comments, you mentioned something about leadership. I was sort of wondering, you might be able to expand a little bit on it obviously going to go to more next week, but just curious of your phraseology with that. And then Martin, you sort of mentioned that you might link some of that dividend to FRE, I just wonder if you might give us a couple of lines on how you think about that?

Joshua J. Harris
Co-Founder & Senior MD

Yes. Look, I mean I think that we continue to broaden our franchise and make it less dependent on a small number of people and more, much more of a broad management team. I think we're -- obviously we promoted Jim and Scott to Co-Presidents a couple years ago. We promoted Anthony and Martin to Co-COOs a year or so ago. And now we're -- and we've announced numerous promotions internally in an opportunistic natural resources. And then we've added, [indiscernible] on the infrastructure side and infrastructure investing side. But what we're going to talk about next week is that we're also doing a lot on the -- what we call enterprise solutions which is the infrastructure of Apollo, it's now renamed enterprise solutions. So we're going to announce the Head of Communications. I don't think we'll hit next week, but we're investing and very focused on technology and data. And so a series of senior hires in that area, which is very exciting for both the firm and the Funds.

And then on the yield side, we have 2 or 3 major senior hires. So I think that -- and so we're going to go into all that Investor Day, but really, it's broadly across the firm. We're now -- our management committee is about 14 people. And then we have a leadership advisory forum which is more than 40 senior leaders. And increasingly, we're getting a lot of depth and a lot of bench strength. And we have really great people. So increasingly, we want them to do more and drive the firm and they are doing more and driving the firm.

Martin Bernard Kelly
CFO, Co-COO & VP

Yes, I'll just quickly on the second point. So Bill, I wouldn't read anything intuit in terms of a substantive change, other than we would plan to underscore a minimum distribution that could be paid in any quarter.

Joshua J. Harris
Co-Founder & Senior MD

We've been hearing from investors that setting a minimum could be beneficial. And clearly our FRE is highly predictable and durable through a cycle and growing. So I think that it's an easy thing for us to do and we're likely to do it. And in particularly, we don't -- and hopefully that will have some positive impact on, people believing that it's durable and positively impacting and we'll get a little more credit for the stock.

Operator

Our next question is a follow-up from the line of Robert Lee of KBW.

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

Great. I'm going to tried two-parter. First, on the Athene transaction, I'm just curious I mean you own 35%, you have an option to buy another 5% down the road. Plus, I'm assuming you're not going to participate in their buybacks. Are there -- is there any kind of regulatory limit to ownership that, you wouldn't want to or be able to go above. And then I'm just curious, if you could give us the fee rate on dry powder?

Martin Bernard Kelly
CFO, Co-COO & VP

The fee rate on dry powder. The dry powder relates to management phase, is concentrated in credits average fee rate is sort of 65 basis points, 70 basis points. So that's probably a good proxy.

Operator

Our final question will come from the line of Patrick Davitt of Autonomous Research.

Patrick Davitt
Autonomous Research LLP

You mentioned in the release that 3Q is mostly driven by Tranquilidade which I thought still need a regulatory approval or was that some sort of free distribution and there is still the final closing to come?

Martin Bernard Kelly
CFO, Co-COO & VP

Yes. Sorry to be miss this thing.

Operator

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

Gary M. Stein
Head of Investor Relations, Client & Product Solutions

Thanks, operator. Thanks, everyone, for joining us this morning. We look forward to connecting with you next week at Investor Day.

Operator
Thank you. Ladies and gentlemen, this does conclude today's third quarter 2019 earnings conference call. You may now disconnect and have a great day.