S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

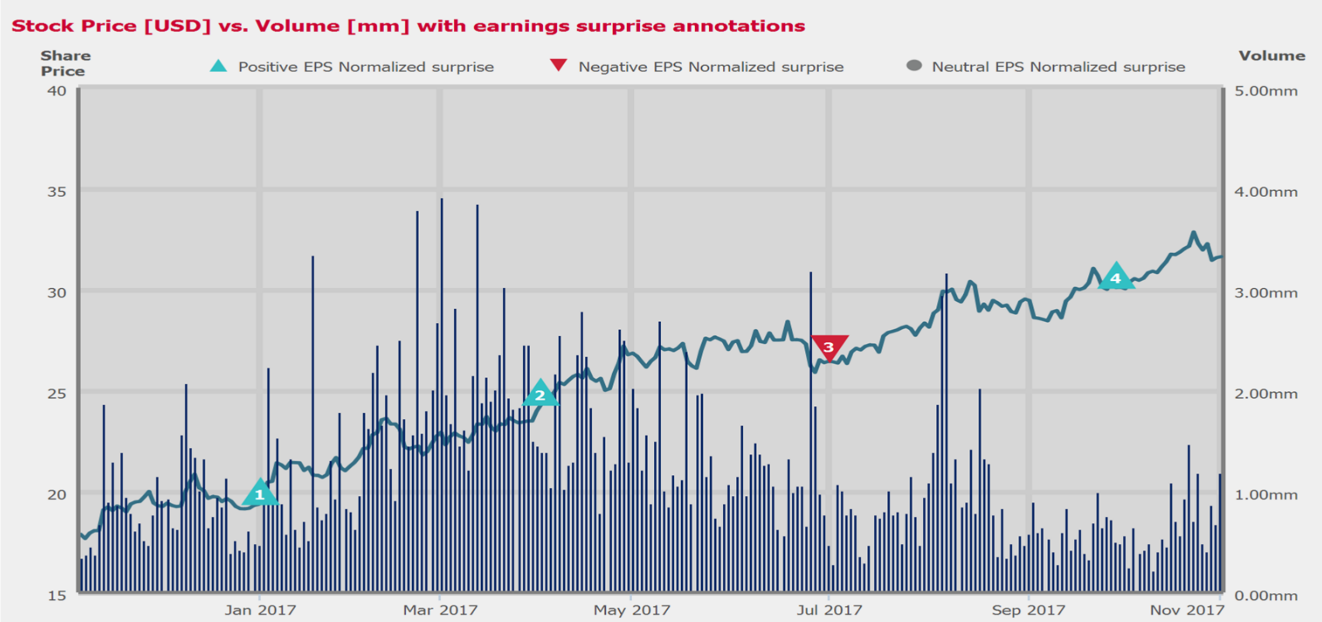
FQ4 2017 Earnings Call Transcripts

Thursday, February 01, 2018 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.66	1.22	▲84.85	0.70	3.00	3.57
Revenue (mm)	599.38	869.50	▲45.07	609.99	2297.58	2578.63

Currency: USD
Consensus as of Jan-29-2018 11:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.80	0.98	▲1 22.50 %
FQ1 2017	0.64	0.82	▲2 28.12 %
FQ2 2017	0.49	0.46	▼3 (6.12 %)
FQ3 2017	0.59	1.07	▲4 81.36 %

Call Participants

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Presentation

Operator

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

Gary M. Stein
Head of Corporate Communications

Great. Thanks, operator. Welcome to our Fourth Quarter and Full Year 2017 Earnings Call, and thanks for joining us. With me today from Apollo are Leon Black, Founder, Chairman and Chief Executive Officer; Josh Harris, co-Founder and Senior Managing Director; and Martin Kelly, our Chief Financial Officer.

We'll be discussing certain non-GAAP measures on this call which management believes are relevant to assess the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our earnings presentation which is available on the Apollo website. 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 funds.

Earlier this morning, we reported distributable earnings to common and equivalent holders of $0.77 per share for the fourth quarter and $2.37 for the full year. We declared a cash distribution of $0.66 per share for the fourth quarter, bringing the total distribution for the full year to $2.06 per share. We also reported fee-related earnings, or FRE, of $0.46 per share for the fourth quarter and $1.53 per share for the full year. We also reported economic net income, or ENI, of $1.22 per share for the fourth quarter and $3.57 per share for the full year ended December 31, 2017.

If you have any questions about the information provided within the earnings presentation or on this call, please feel free to follow up with me or Noah Gunn.

With that, I'd like to turn the call over to Leon Black, Founder, Chairman and Chief Executive Officer of Apollo Global Management.

Leon D. Black
Founder, Chairman & CEO

Thanks, Gary and good morning, everyone. I'm pleased to report that Apollo closed 2017 with solid fourth quarter results and the business continues to demonstrate strong momentum heading into 2018. Notable themes of the past year that drove the business forward include strong overall AUM growth, continued growth in our permanent capital vehicles, robust investment performance, significant capital deployment and increasing realization activity. Underpinning these themes is the fact that Apollo's investment prowess and the strength of our global relationships are helping to fuel asset growth. By delivering strong returns to our fund investors through cycle, we believe we are being rewarded with an increasing amount of capital to manage. The highly successful fundraising effort of Fund IX in 2017 is just one powerful example across our integrated global platform of how investment excellence is driving our business forward.

The flagship private equity fund we managed has generated a 39% gross and 25% net IRR since Apollo's inception in 1990. We are sometimes asked if our success in private equity, which now spans over 27 years, is sustainable and repeatable. And we believe it is. I'm pleased to note that our current flagship private equity fund, Fund VIII, has generated gross and net IRRs of 33% and 23%, respectively through December 31, 2017. And it's important to emphasize that the average hold period for investments in this fund is only 2 years. We believe Fund VIII's performance to date showcases Apollo's investment acumen since it demonstrates that even in a relatively high valuation environment, we can create meaningful value for our fund investors.

Of course, with greater amounts of capital to manage, comes the responsibility of sourcing and originating an increasing amount of new investments. It's no secret we're operating in a higher-priced environment. And so finding what we believe are attractive investment opportunities at discounted valuation is a formidable task. However, we strive to meet this challenge by remaining committed to our value orientation and adhering to a consistent willingness to embrace complexity. The most telling example of this is the fact that the average creation multiple of Fund VIII portfolio companies is approximately 6x enterprise value to adjusted EBITDA, nearly 5 multiples below comparable industry averages. Bottom line, we've built an enviable franchise for investing and our continued pace of capital deployment demonstrates the strength of our sourcing capabilities. Over the past 2 years, the funds we managed, together with coinvestment partnerships, have deployed more than $30 billion of opportunistic capital across the platform. Considering the opportunity side of our business is just north of $100 billion or 40% of our total AUM, the $30 billion of investment activity is significant particularly for a value investor operating within an otherwise overvalued market. While we intend to remain active investors in the year ahead, we believe our opportunistic funds are entering another harvesting cycle led by Fund VIII.

In 2017, we saw our volume of realization activity double year-over-year from $5 billion to more than $10 billion. Given the continued seasoning of the portfolios we manage, if capital markets remain strong, we expect the pace of realizations to increase going forward. As you know, monetization activity in our funds typically correlates with the level of realized cash carrying income we earn and subsequently distribute to our shareholders. And Josh will frame out what this trend could look like in a few minutes.

Turning to asset growth. Our total assets under management grew by 30% year-over-year from approximately $190 billion to nearly $250 billion at the end of 2017. The $60 billion of net asset growth during the year was driven by several primary components, including: $25 billion from Fund IX, the largest dedicated private equity fund in history; $16 billion from permanent capital vehicles, including Athene, Athora and MidCap; and $16 billion driven by robust investment performance which included fund appreciation of almost 30% in private equity.

I'd like to dig into some of the detail around these drivers and offer a few comments on how we're thinking about Apollo's growth outlook. I'd like to do this by addressing each end of the target risk-return spectrum, that is our high return opportunistic strategies and our low return yield-oriented strategies.

Starting with the opportunistic product set. Clearly, private equity Fund IX was the single largest contributor to our asset growth in 2017. In addition to our global flagship fund, we remain committed to our specialized private equity products including natural resources. We believe we have navigated the energy market well and have been actively deploying capital in a number of interesting opportunities amidst the dislocated market from our second fund, ANRP II. The fund had its final close just 24 months ago with total commitments of approximately $3.5 billion and it's already 75% invested or committed. Consequently, we expect to be in a position to launch a successor fund later this year.

We also intend to supplement the growth of our private equity business by seeking ways to leverage our existing expertise and capabilities. We expect this effort to manifest itself in a variety of ways leading to the potential launch of complementary new products. One strategy that we are currently in the process of launching is called Hybrid Value, a strategy which will more formally integrate the expertise of our private equity and illiquid credit investment teams by focusing on capital solutions, structured equity and noncontrolled stressed and distressed investments. The strategy will target net returns in the low to mid-teens with downside protection, which we believe provides a highly differentiated solution to investors' portfolios.

Turning to our opportunistic credit business. During 2017, we completed fundraising for 2 of our drawdown strategies. This includes our third European Principal Finance Fund, EPF III, totaling approximately $4.5 billion of commitments as well as our third Financial Credit Investments fund, FCI III, which raised almost $2 billion in commitment, 75% of which is already invested. In addition, our fourth Structured Credit Recovery Fund, SCRF IV, raised $1.4 billion during the fourth quarter, and we expect incremental closing in the future.

While the footprint of our opportunistic strategy expands by raising larger successor funds and launching new products, we are also continuing to build the yield-oriented side of our business. Although Apollo is probably best known for its higher alpha opportunistic funds, it's important to note that more than 80% of our $164 billion of credit AUM is focused on delivering yields, the backbone of which is our various permanent capital vehicles. These vehicles grew by nearly 20% in 2017 and now exceed $100 billion in assets. Our yield-oriented strategies have a number of attractive characteristics. They are management fee driven. They are more scalable, their market volatility is lower. They're less dependent on particular economic environments to deploy capital and importantly, they're serving the market well as investors continue to search for yield. Given these positive attributes, yield strategies are important for Apollo, and we expect they will serve as the significant source of our growth in the years ahead.

One example of how we are facilitating growth in our yield business is the recently announced annuity transaction with Voya and Athene. Working together, we were able to create a win-win-win solution for Apollo, Athene and Voya to acquire Voya's fixed and variable annuity businesses. Upon closing of the transaction, which is expected around the middle of this year, Apollo will manage an incremental $19 billion of fixed annuities that are being added to Athene's balance sheet. In addition, together with several strategic investors including Athene and Voya, we've established a new permanent capital vehicle called Venerable that will acquire the variable annuity pieces of the transaction. We believe this transaction with Voya is illustrative of how Apollo and Athene are uniquely positioned to provide creative, holistic solutions for an array of insurance companies seeking to address their fixed variable and life businesses.

Another permanent capital vehicle that has been building over the past year is Athora, a business which is focused on consolidating the insurance market in Europe. The platform which is pursuing acquisitions in a market we believe is in excess of $3 trillion has been scaling up and is well capitalized. Currently, Athora has approximately $8 billion of assets and has the potential to acquire up to $40 billion to $50 billion of total AUM with its current equity base. Clearly, the growth opportunities available to us are sizable and compelling, and we look forward to providing you with updates on these initiatives as we move through the year.

Before I hand the call over to Josh, it's important to acknowledge that our outstanding achievements would not be possible without the dedicated efforts of Apollo's incredible global team that now exceeds more than 1,000 employees, including nearly 400 investment professionals. As a result of our entrepreneurial culture, the breadth of our integrated platform and our reputation for excellent investment performance, we've been able to attract, retain and promote what we believe is one of the strongest teams in the financial services industry. In that regard, I'd like to highlight the recent promotions of Scott Kleinman and Jim Zelter to the newly created positions of co-President. Scott and Jim are 2 of the most talented investors and managers in the industry. They are natural leaders and I, along with Marc and Josh, wanted to give them the opportunity to take on more responsibility at the firm. Their promotions reinforce our integrated model and reflect the logical progression of their distinguished careers in which they have had great success playing key roles in building and managing Apollo's core businesses. We congratulate them on their accomplishments and look forward to working with them in their new roles as we all continue to take Apollo to new heights.

With that, I'll turn this call over to Josh for some additional comments now.

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

Thanks, Leon. I'd like to continue the call by providing some additional commentary around investment performance and then discuss our cash earnings profile and conclude with some thoughts around shareholder value as it relates to our business structure.

Starting with investment performance. The funds we manage generated positive results across all 3 segments for the quarter and full year. Private equity performance was particularly strong, with 9% appreciation for the quarter and 29% for the full year. Fund VIII continued to display significant momentum, appreciating by 13% in the quarter and 41% for the full year. Fund VIII's performance in the fourth quarter was positively impacted by ADT, which contributed a little more than 1/3 of the fund's gains in the period.

Aside from ADT, which Martin will discuss further, the upward lift in the remainder of the portfolio was driven by companies held within the media, telecom and technology, chemicals business, services, natural resources and leisure sectors.

In credit, despite a tight credit environment, the segment's positive performance was broad based with a blended gross return of 2% for the quarter and more than 8% for the full year. In a world where lower interest rates and negative nominal rates are abundant, we believe 8% blended return on our funds generated across a variety of underlying strategies is quite differentiated. Reflective of their respective risk-reward profiles, the opportunistic drawdown funds generated a gross return of 13% in 2017 while the yield-oriented Liquid/Performing strategies generated a gross return of more than 6%.

Now I'd like to describe how the growth drivers, Leon discussed, translate into a more attractive cash earnings profile for our business. Our total cash earnings reflects a combination of our more predictable fee-related earnings and our incentive earnings. As you know, we believe fee-related earnings is an important financial metric for Apollo. It is the foundational component of our quarterly and annual cash distribution since it is largely based on recurring management fee income that is generated from long-dated assets we manage. Management fees have comprised approximately 90% of our fee-related revenues historically, and we have been growing at a compound annual rate of 14% since our IPO in 2011. When combined with our discipline around cost management to drive margin expansion, our compound annual growth rate on fee-related earnings over the same time frame exceeded 20%.

We're proud to note that our fee-related earnings margin, or FRE margin, in 2017 was 49%. And once Fund IX begins its investment period, we expect this margin to exceed 50% in 2018. Because of our significant profitability, we've been able to continue investing in our business to support its future growth. For example, over the last 2 years, we grew our headcount by more than 100 people, and we have also been focused on growing our origination capabilities.

Furthermore, there is a high degree of visibility around growth in our fee-related earnings, particularly over the near to medium term, with the expected contributions of Fund IX as well as the Voya assets Leon discussed earlier. As of the end of January, Fund VIII is 90% committed. Therefore, our current expectation is that we will commence the investment period for Fund IX and start earning management fees by the end of the first quarter.

As we've stated, we expect the commencement of Fund IX will add approximately $200 million of annualized management fees net of fee reductions in other funds. Ultimately, as FRE grows, so should the consistency and level of our cash distribution to shareholders. It's worth reiterating that FRE does not include incremental distribution from realized cash incentive fees which have averaged approximately $1.50 per share over the last 6 years. As Fund VIII moves into its harvesting phase, we expect cash distribution from incentive fees to increase in the coming years since there is approximately 1/3 more -- since there's approximately 1/3 more private equity fund capital invested today versus the average level during those same 6 years. We expect the potential for higher realized cash incentive fees will augment our indicated minimum baseline distribution of $1.30 per year and further strengthen Apollo's cash flow profile.

Before I hand the call over to Martin, I'd like to reiterate our ongoing commitment to identify ways in which we can increase shareholder value. With that in mind, the current structure of our business as a publicly traded partnership was formed following careful thought and analysis. And we believe our shareholders have appreciated the economic rewards they have received through this structure over the years. That said, we understand the complexities which exist for public market investors owning our shares versus those of traditional corporations. So we have begun to analyze how the recent U.S. tax reform may alter Apollo's approach toward value maximization.

The initial findings from our numerical analysis indicate the following: If the Tax Cuts and Jobs Act had been effective at the beginning of 2017, we estimate our pro forma economic net income would have been $3.68 per share, which is $0.11 or 3% higher than our reported result of $3.57 per share. Our pro forma effective tax rate would have been 5% versus our actual rate of 8%. The driver of the pro forma increase to ENI is the reduction in the statutory rate on our ordinary income, approximately 70 -- importantly, approximately 75% of which is attributable to FRE.

Now if the publicly traded partnership entity within our current structure had been a corporation at the beginning of 2017 and the Tax Cuts and Jobs Act had been effective, we estimate our pro forma economic net income would have been $3 per share, which is $0.57 or 16% lower than our reported results of $3.57

per share. In addition, our pro forma effective tax rate would have been 23%. The primary driver of the decrease to ENI in this scenario is the entity level taxation outperformance fees. Of course, we recognize that with a simplification to our current structure, there might be positives to partially or wholly offset the earnings dilution we would have experienced, such as an expansion in valuation multiples.

Given the very recent changes to the tax code and the complexities involved, we are continuing to assess the best path forward for Apollo, including how investors value different structures on a sustainable basis. And we welcome any feedback you may have as we continue to do our work.

With that, I'll turn it over to Martin for some additional comments. Martin?

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again, everyone. Apollo's robust fourth quarter results contributed to our significant earnings growth in 2017. Full year, total economic net income of $1.4 billion or $3.57 per share is more than 50% greater than 2016 full year ENI. This strong growth was driven by a significant increase in carry income, resulting from the robust investment performance across our business segments that Josh discussed earlier.

For the fourth quarter, we generated total ENI of $490 million or $1.22 per share. Pretax, our economic income was $539 million or $1.34 per share, driven by the following key components: FRE of $187 million, which contributed $0.46 per share; total net carry of $327 million, which contributed $0.81 per share; and total other income predominantly investment income related to balance sheet investments in our funds of $41 million which contributed $0.10 per share.

As it relates to FRE, we saw a heightened level of fee-related revenues during the fourth quarter driven by deployment-related transaction fees in both private equity and credit. For the full year, although transaction and advisory fees were sequentially lower than 2016 primarily due to normalizing deployment levels in private equity, management fees grew 11% sequentially. Meanwhile, fee-related expenses, which include our base compensation and G&A, grew only 4% year-over-year reflecting the cost discipline Josh mentioned earlier.

Overall, as we think about the outlook for FRE in the immediate term, management fees on Fund VI, which were running at approximately $20 million per year turned off in January. And we would expect a normalization of the elevated transaction fees we saw in the fourth quarter.

Looking beyond the first quarter, the impending stair step related to Fund IX net of the step down in Fund VIII and the aforementioned Fund VI turnoff will drive fee-related earnings materially higher by approximately $0.50 per share on an annualized basis. We believe any reduction in 2018 fee-related earnings based on the timing of Fund IX management fees commencing by the end of the first quarter versus earlier in the quarter will be more than offset by incremental growth throughout the platform.

In terms of performance fee- and balance sheet-related income, we earned $368 million of net carry- and investment-related income during the quarter. The results were driven by 2 primary factors: One, strong investment performance across businesses which drove net carry income of approximately $327 million; and two, appreciation in the value of investments held on our balance sheet, principally gains from GP investments in our funds, partially offset by a modest reduction in the fair value of Athene.

In private equity, carry income earned in the quarter was primarily driven by appreciation in Fund VIII. As Josh mentioned, ADT was a meaningful driver of this appreciation during the quarter as the company has continued to perform well. At December 31, ADT was marked at $12.75 per share. In credit, carry income was primarily driven by drawdown funds with particular strength coming from our Financial Credit Investment, or FCI, and European Principal Finance, or EPF, strategies.

As it relates to the quarterly mark on Athene, the fair value decreased by approximately 1% quarter-over-quarter due to the lower trading levels of its stock and partially offset by a modest reduction in the liquidity discount on our shares. In December, approximately 1.3 million shares of Athene were reserved for Apollo that we previously earned as part of our net carried interest in AAA. In March, AAA will make a final distribution of its Athene shares. At which time, we will receive the 1.3 million shares from December plus additional Athene shares to cover the remaining unpaid balance of our current net carry interest in AAA, which stood at $139 at year-end. We have not yet decided as to whether these carry-related shares will be kept on our balance sheet or sold and result in distributable earnings.

With respect to our financial profile, our balance sheet today is strong. And with solid investment performance in our funds, with upside created from strategic investments like Athene and Athora, it is only getting stronger. At quarter end, the economic balance sheet comprised approximately $6.50 per share value, which is up more than 50% from a year ago. This growth was driven by the strong appreciation in the value of Athene as well as the significant increase in the value of our net carried interest receivable. At the current balance of approximately $2.75 per share, our net carried interest receivable is almost 6x the cyclical low of approximately $0.50 per share, just under 2 years ago.

With regard to our cash distribution, the $0.66 we declared today for the fourth quarter was driven by 2 primary factors: First, the relative cash flow stability of our fee-related earnings and the upside it can create by leveraging the firm's integrated platform as it relates to sourcing, financing and executing sizable transactions. The quarter's cash distribution included $0.46 of FRE; and second, there was approximately $0.30 of cash carry and incentive fees included within the distribution resulting from a variety of portfolio realization events. Realized carry from private equity funds drove $0.18 per share, while realized carry from credit funds drove approximately $0.12 per share.
With that, we'll now turn the call back to the operator and open up the line for any of your questions.

Question and Answer

Operator

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

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Thank you for providing a lot of details, both on taxes and the ADT, obviously pretty important issues, so I know a lot of work went into those things. My question to you guys is something Leon talked in his prepared remarks, really around just the outlook for more specialty funds. I guess when you take a step back and think about Apollo the next kind of 3 years, what percentage of the total kind of private equity assets do you anticipate these funds to contribute? And how are the economics will differ from kind of what you have currently in the opportunistic bucket, both in terms of fees and margins? Meaning, do you need to make any meaningful investments in the business to kind of grow that leg of the stool?

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

Yes. I mean, I'd say that the flagship funds are going to continue to represent a disproportionate amount of our overall private equity earnings. But having said that, as Leon mentioned, we've been adding -- we created a business called EPF, which is now up to about EUR 4.5 billion in its latest fund. We created a business -- a natural resource business which is, as Leon mentioned, is nearly in full -- through its $3.6 billion fund and about comments thinking about another fund. And we've announced or we -- Leon talked about Hybrid Value, right? Where we need -- we don't need -- and so, in each case, generally, when you're starting a business from scratch, you do need to start -- you do need to add to the team. And therefore, the early margins are probably less than they would be in a mature business. But over time, they grow and become quite consistent once the business scales. And I think certainly, the EPF business, the ANRP business, we -- I didn't even mention the FCI, the principal -- the FCI business, the insurance-linked business. So those are all scale business. In the case of Hybrid Value, we're going to have to add very little cost because we're using our existing theme. And so in some cases, the margins dropped through. And I would expect the specialty funds to be an increasing percentage, but still a relatively small percentage of our overall private equity income.

Operator

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

Glenn Paul Schorr
Evercore ISI, Research Division

The other side of tax reform. Just curious. You outlined all the good info related to you as a company. How, if any, have you evaluated its impact on how you invest, whether it be using leverage deductibility and things like that in terms of the investment you make? Or does it impact different types of products you grow like is there altering demand by the LPs? Anything like that on the investing side I'd be curious about?

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

I mean, obviously, with the tax law changes, every time we make an investment in certainly, in PE and everywhere, we model out clearly the after-tax cash flows of those companies. And certainly, the tax changes, the lower tax rate, you mentioned interest deductibility which in a small way for a very small number of companies because of how -- our companies are not very leveraged given that we pay very low purchase prices, would affect a few companies. And there's a lots of puts and takes. But at the end of the day, certainly, the after-tax cash flows, the Tax Reform Act was positive overall for our portfolio. And certainly, we're modeling all the nuances of all of that stuff into every investment decision. And so we're definitely taking account of it and it's very complicated. In terms of shifting LP demand, we haven't seen that. We have not experienced that.

Leon D. Black
Founder, Chairman & CEO

I just want to underscore what Josh laid out so that it's clear. Our private equity model is very value-oriented. We've proven that again and again. The fact that we're living in a 10.5 multiple of EBITDA environment for a TEV, average prices paid, and we're paying less than 6x in our last portfolio, attest to that. But what does it mean when you only pay 6x for a company? It means that on average, we're leveraging those companies 3.5 to 4x, which is materially also less than what our peers are doing. So when you look at this tax reform deal, certainly a plus going from 35% to 21%. Certainly a plus as to what you can expense on capital expenditures. This could be a negative to some on interest deductibility, but much less so for those transactions that are levered less, which is really our sweet spot of what we do is leveraging less because we're paying less. So net-net, when you add that all up, we think this is actually a plus to our business.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Just coming back to tax reform. You mentioned that if you were a C corp, you'd have 16% lower earnings or leakage there and a 23% tax rate or so. Just curious if you -- that was for 2017. Just curious if you look back over the past 5 years, or since you went public what that would look like just given the mix in earnings particularly as you look out over the next couple of years, where performance fees could be more meaningful. So just curious how that would look? And then also, if you converted to a C corp, how you would think about your distribution policy? How that might change?

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

Yes, I mean, the answer is it was a lot of work in 2017. We haven't gone back and looked at the last 5 years. And we have not -- I don't think we -- we're midstream in analyzing all this and wouldn't really comment on how we are still thinking about if we converted, how that will affect our distribution policy.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Maybe just a question on the credit side of the business. In your guys' prepared remarks I think you mentioned with Athora, like that market opportunity being somewhere in like the $3 trillion range. You did the Voya transaction. Just wanted to kind of see what you're seeing out there in terms of those types of opportunities? And probably more importantly, given the growth that we've seen in that platform over the last 3 years, how do you see that playing out over the next 3 to 5 given all the initiatives in place and maybe the credit backdrop?

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

Yes. I mean, I think, look, obviously, if you're talking about the -- in short, the strategic capital vehicles around insurance, Athene, Athora, I think -- we think that could be quite a large opportunity going forward. I think one of the things that Leon said about Athora was that even under our existing capital base that could be, he mentioned, that could be a $50 billion opportunity just from the existing capital base we've already raised. And he mentioned that we were at $7 billion today. That gives you a sense that it could be large. And we, in terms of how we think about it, Athene obviously is, at this point, pro forma for the Voya transaction, close to $100 billion in assets in AUM. And they're growing organically just by the various ways that they grow organically in the mid- to high single digits. And they're still out looking for acquisitions and there are a lot of acquisitions available to them. And so they're hard to predict. So I think that we do expect that, that gives you some sense. But clearly, there are stair-step things that can occur. And we're also starting -- and we haven't talked about it as much, but with the Venerable platform which is the variable annuity platform, that gives us the capability to go into variable annuities which is a whole new business. And then obviously, we've started a property and casualty vehicle as well that we've recently acquired which is also a platform. And so we do see this as a competitive advantage in an area where we'll be able to grow and obviously, we were 0 going back 6, 7 years ago. And now we're $100 billion and moving up. So that gives you as much of a sense as I can probably give you on the call.

Operator

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

Devin Patrick Ryan
JMP Securities LLC, Research Division

Maybe a question here just on -- so the one main acquisition I thought was pretty interesting and it seems to be a little bit of a nuance strategy taking kind of a large public company and keeping it public and it was obviously well received by the market. So I guess the question is we're thinking about or contemplating deployment of Fund IX. Should we think about this as may be a special situation or a one-off? Or are you looking at other types of situations along the same lines? And just any other thoughts around kind of the pipeline I guess for Fund IX as well as we're getting closer?

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

Well, if you look at -- I mean, I think, one of things you can do is just -- I mean, if you look at Fund VIII, right, obviously, with the kind of flow into passive income strategies and pressure on hedge funds and so forth, the -- even though the markets have traded at a relatively high multiple, there's really been a bifurcation. If you're a growth stock or industry darling or leader, you trade at a very high multiple, but there's tons of companies that have been left behind in the public markets. And in Fund VIII, we deployed like around half the fund, if you will, in public companies like ADT is really the biggest example of it where we took them private. In terms of leaving them public, not leaving them public, I mean, each situation is different. And so you customize each transaction around what makes sense. In many cases, leaving things public, you have to do things to the business, you have to change costs and lower cost. And so in many cases, it's easier to do that in a private setting and then where you go public but not always. In the case of OneMain, it's a very large cap -- having a huge capital base is relevant and important and access to the public markets, and we took a different path. But I think that in each case, each transaction is different. But underlying point is that the public market is providing a fertile hunting ground for us, and we would expect that to continue into Fund IX. And we've been deploying -- we deployed kind of $5 billion last year and that gives you a sense of kind of our sort of current thoughts around deployment, if you will, but it's very variable and deal-specific.

Operator

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

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

I guess going back to taxes a little bit. I mean, Martin, so what would be -- what do you expect will be the effective tax rate on FRE as it flows through the blocker in '18? And then I mean in the past, Josh, you've mentioned that kind of view the base -- I believe the base distribution from FRE is being about -- I think it was $1.30 a year, call it. Does the tax reform, I'm assuming, may be you bumped that up a bit?

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes. I'll start first and then I'll let Martin answer the other one. I mean, the answer is we've got -- I mean, we've been growing our FRE at 20% per annum, right? I think, we said that. And so as FRE grows, our base distribution is going to grow. I mean, obviously -- and certainly, the accretion from taxes on FRE, and we mentioned that 75% of the increase was FRE related. That certainly adds -- increases our FRE. So all of this stuff is a positive. We just bumped the distribution from $1 to $1.30 in August of last year, and we like to keep you all smiling on the phone. And so we are conservative, and we allow our earnings to leap forward and bump up kind of what we communicate as sort of minimum distribution behind our earnings. But yes, our earnings have a lot of momentum. And so therefore, we would expect over time that our minimum distribution would move up. And we also think that the tax rate -- the tax reform positive to our FRE is something that will over time reflect in our distributions.

Martin Kelly
Chief Financial Officer

Yes. And I'll just add. We're not giving guidance on our rate or range at this point. There's puts and takes and then there's some points of our income streams that need assumptions around them. But I think it's fair to assume that a reduction from 35% to 21% will have a proportional reduction on the FRE tax rate. And so I'd use that for now until we're in a better position to predict.

Operator

Your next question comes from the line of Patrick Davitt of Autonomous.

M. Patrick Davitt
Autonomous Research LLP

You mentioned earlier higher after-tax cash flow for the subset of your portfolio exposed to the lower U.S. corporate tax rate. But didn't mention that as a driver of 4Q marks. So my question is, has the higher after-tax cash flow factored into higher marks at all yet? And should we expect to see that in coming quarters? If not, or is that just something that will suddenly unlock when you sell or IPO the position of the benefit?

Martin Kelly
Chief Financial Officer

Yes. We did a lot of work around this going through the year-end close. Most of our companies in PE, the far majority, are valued using comps and in most cases, that's an EBITDA comp. So if we -- if you look at the S&P 500 for the quarter, it was up 6.5%. We're up 9% or so across the book. So we saw that, and we saw some added multiple expansion on top of that. And so -- and then for the companies that don't have public comps where we do it this year which is a relatively small handful, we factored in what we think for now is, yes, the impact on free cash flow in our valuation. So to the best of our ability, realizing that every company is different and the tax code is complex, it's being factored in.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Just maybe a follow-up on the Voya transaction. Maybe talk about how Apollo's value proposition in variable annuities, you have Venerable compares to what you and Athene have done historically on the fixed side. And do you see a big enough market on the variable annuity side given the strong markets, or is the real potential kind of during or after a global equity selloff?

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

Yes. Yes, so look, I mean, obviously, we've created a vehicle that is focused on variable annuities. That business has been under a lot of pressure for a long period of time. And actually, there is -- there are -- there's many, many shareholders of broad-based insurance entities that -- I mean, the Voya stock was very positively affected by the transaction. So it was really a win-win-win. And so having this capability. And it is a little more complicated, you actually have to use a lot more hedging capability to make sure that you've appropriately factored in the volatility of the payouts. But having that capability, which we've developed will allow us to take advantage of a market opportunity where there is a lot for sale and very few buyers. So we'll be able to be -- pursue these in a very value-oriented way. In addition, many blocks of insurance are sold with both fixed and variable components. And so the opportunity to partner with Athene and help them unlock value which obviously in turn helps us unlock value as well is also a big possibility. And so I would say that that's how I would characterize it. So it's a big market. We're -- right now, we're not managing the assets of Venerable. So that would be -- Venerable -- excuse me, Venerable. So that would be a difference. But like -- but it gives us all these opportunities to create value.

Leon D. Black
Founder, Chairman & CEO

Yes. I think just to underscore that, again, going back to the win-win-win that Josh just referenced, the market for fixed which is what Athene has been built on over the last 8 years, is very competitive right now and pricey. We saw that in the F&G transaction where we chose not to play because we didn't think the returns were there even with our synergies. But to be able to buy fixed at a discount by creating a holistic solution for insurance companies that are willing to shed both fixed and variable together and to create an entity like Venerable, which on its own, can be structured in a way that it makes sense from a risk-reward point of view, is really where the win-win-win comes. So yes, we will look at the variable world. Our preference, obviously, will be for those insurance companies that can now look at the Voya transaction as a model to be able to do some type of combination of fixed and variable and the fact that we have the expertise and now, a track record for actually having done this I think could be an attractive growth vehicle for us.

Operator

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

Gerald Edward O'Hara
Jefferies LLC, Research Division

And maybe just one for Martin, just kind of looking at the G&A line here in the back half of the year may be a little bit elevated over the first half. Likely some reinvestment or investment in the business. Just kind of hoping to get a sense of how some of the new funds and strategies you all mentioned that are kind of on the come might be balanced against scale and obviously the predecessor funds, and how we should think about that line item growing forward into 2018?

Martin Kelly
Chief Financial Officer

Sure. So if you -- we separate that into costs related to raising funds, fund formation costs and all other G&A. And placement fees are clearly episodic and based on the timing and the amount of capital we raise through the price. So that's dependent on capital raising. If you look at G&A ex that, it's growing modestly but actually, the first couple of quarters of the year were a bit low to the norm and I would look at the back quarters as more in line with a good run rate going forward.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

With the insurance affiliates becoming such large contributors to your results, I was wondering if you guys can talk a little bit about the risks associated with these vehicles. And then how you can mitigate those risks?

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

Yes. So first of all, I mean, obviously, insurance businesses are levered businesses. But -- and so therefore -- and they're spread businesses. And so I'd say that you need the capability of managing the liabilities and the liability payouts. And so -- and projecting those payouts appropriately. And then at the same time, you need the opportunity to manage and create value on the asset side. And in today's world, actually, the challenge for most insurance companies is less along the liability side and more on the asset side. But in our case, so we have -- because of the asset management capability we have and the yield -- the ability to generate yield, we are -- we think we're helpful and advantaged in creating that extra spread. And when you're -- when you're levered as insurance companies are, an extra 100 basis points in spread can be enormously valuable. And so we put in place -- we have a lot of asset management capability in Europe. We have a lot of asset management capability in the U.S. We're investing in our business across all areas of yield to generate this incremental 100 to 200 basis points, which we think will facilitate the insurance companies that we're partners with growth. In case of all of our insurance entities that are separate stand-alone companies, they have very, very defined and thoughtful liability management processes, many of which have evolved in place for many, many years and obviously, we're very comfortable with the way they manage risk. So that's what I would say about all that.

Operator

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

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Maybe just back to the conversion to C corp comments and thanks again for doing all the work on that. But maybe just some initial thoughts and I appreciate this is early in the process here, but how do you think about what type of valuation improvement you would need to offset that 15% dilution given the certainty of tax -- of paying the higher taxes versus the variability around the valuation? I guess, maybe just to frame what kind of cushion you think you would need.

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

Yes, I mean, I think we're still early in our thought process. And obviously, we wanted to, and we did put the numbers out there for 2017. Clearly, we need to look at the numbers going forward where management fees become an increasing part of our earnings. And then there's a lot of complexity to the underlying shareholder tax rates, all of which are different. And so -- and then obviously, your -- what you're saying is what will be the -- what, if any, would be multiple expansion if you simplified your structure? And that's a very complicated question and one that you need to answer on a sustainable basis, right? It's not just looking at what happens the day that you announce it. It's looking over a period of many, many, many years. And so we really -- that's just a conversation that we expect to be having with you and ourselves over the next number of quarters or even years and also we're going to look at each company in the industry is quite different. They have their own dilution based on their own earnings streams, and we're going to look at what other people do and watch, how the market approaches valuation there if there's -- if something were to happen with one of our competitors.

Operator

Your next question comes from the line of Bill Katz of Citigroup.

Brian Wu

This is Brian Wu in for Bill Katz this morning. I'm wondering if you could provide some more color on your outlook for realizations for Fund VIII.

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

Yes. I mean, I think we're not going to get in -- I'll let Martin answer this numerical question. But if you look at the fund, right? It's maturing. Certainly, the average investment in Fund VIII is between 2 and 3 years. But the fund itself started in 2013. And so you're seeing the early investments in the fund reach kind of maturation process. And we are -- you're seeing certainly the IP -- the ADT IPO. But there's numerous other things that have happened with some of the other companies. Presidio would be another where we're starting to set ourselves up for valuation, but I don't think we're putting specific numbers on that. But I would expect if the markets hold up that you'll start to see increasing incentive company realizations and distributions.

Martin Kelly
Chief Financial Officer

So I'd say, the only thing I'll add is our realizations in 2017 were in fee were $4.5 billion. That wasn't all Fund VIII, but a large chunk of that was. We have a lot of monetization candidates, but it's sort of case by case. So we would expect in a normal market condition that, that trend would continue to increase and it will spread out over the next couple of years.

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

Yes. And what I said in my prepared remarks, right, is that the average over the last 5 years has been $1.50. I mean, it troughed out at very little, right? And this year, I think it was $0.60 or so...

Martin Kelly
Chief Financial Officer

$0.50.

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

$0.50.

Brian Wu

So what is the hike?

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

Yes. So at $1.50, right, there's -- that was using a capital base that was 2/3 the size of our current capital base, right? So you can do the math yourself in terms of what that would apply to that $1.50 on an average basis. And so the peak could be -- the peak last year was the peak in earnings is close to $4. So I don't know exactly what the volatility will be. But certainly, we're at -- we're coming off a low and into a realization cycle where you could see expansions above an average that now should be higher because of the new capital. And then you could see some above-average distributions coming over the next few years.

Operator

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

Gary M. Stein
Head of Corporate Communications

Great. Thanks, operator. And thanks, everyone for joining us. As I said earlier, if you have any follow-up questions, feel free to circle back to me or Noah Gunn. We look forward to speaking with you again next quarter. Thanks.

Operator

Thank you. That does conclude Apollo Global Management's fourth quarter and full year 2017 earnings conference call. You may now disconnect.