

Apollo Global Management, LLC

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FQ4 2018 Earnings Call Transcripts

Thursday, January 31, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	(0.82)	(1.01)	NM	0.75	(0.16)	(0.21)	
Revenue (mm)	(171.20)	(104.01)	NM	650.30	1180.47	1019.94	

Currency: USD

Consensus as of Jan-30-2019 11:45 AM GMT

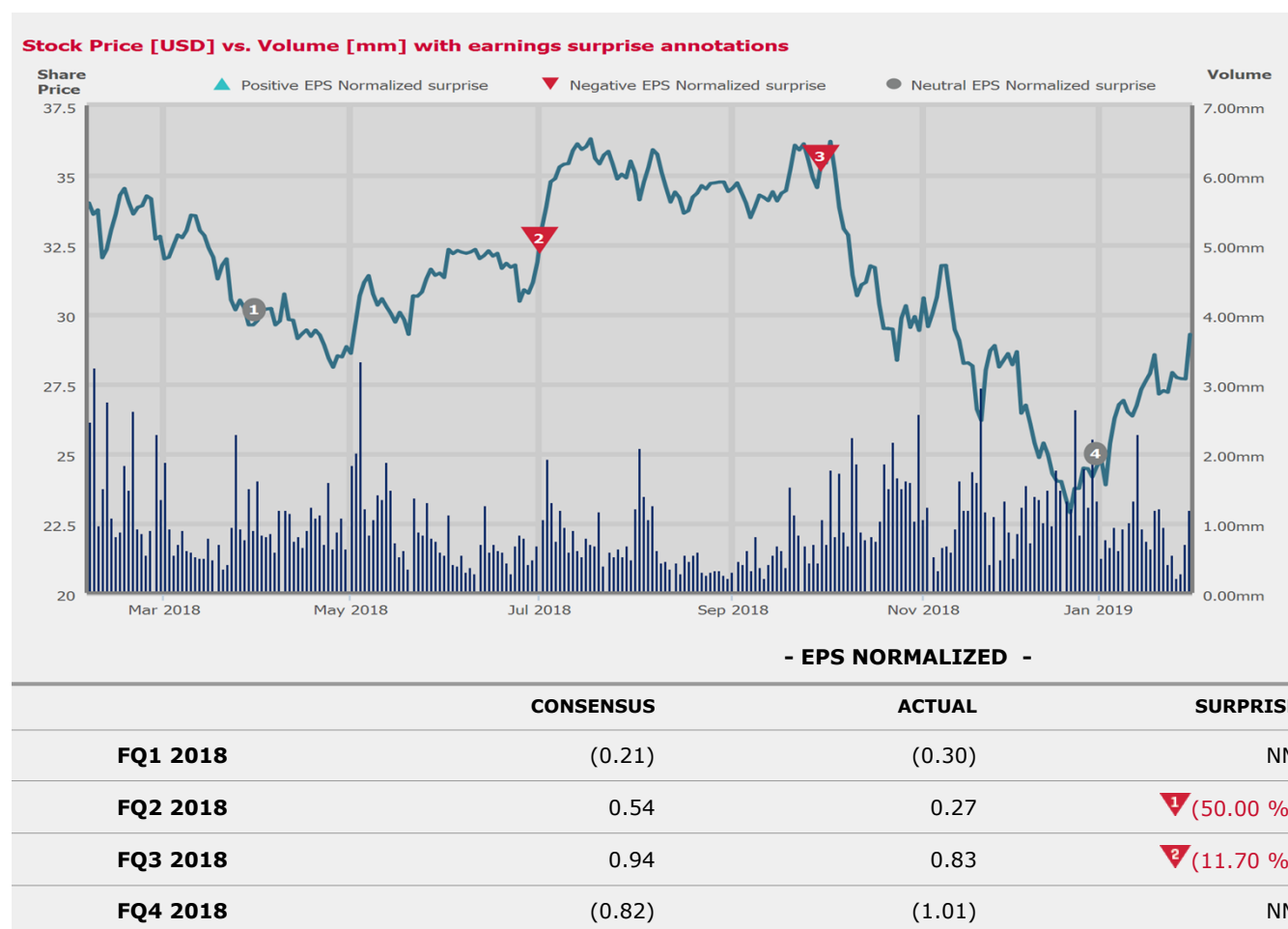


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	9

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's Fourth Quarter and Full Year 2018 Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

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

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

Gary M. Stein

MD, Head of Corporate Communications, Client & Product Solutions

Great. Thanks, operator. Welcome to our fourth quarter 2018 earnings call. Joining me this morning are Leon Black, Founder, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer and Co-Chief Operating Officer. Two other senior members of our team are also participating on this call, including one of our Co-Presidents, Scott Kleinman, and Gary Parr, Senior Managing Director. Scott and Gary will be available during the Q&A portion of today's call.

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

Leon D. Black

Founder, Chairman & CEO

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

My remarks will be focused on the continued strong growth and diversification of our business over the past year, despite the significant volatility within equity and credit markets in the fourth quarter of 2018. I'd also like to highlight the ongoing drivers of growth ahead for Apollo, including fundraising and opportunities for capital deployment. From there, Josh will discuss the earnings power of our business, which is supported by stable, growing and recurring fee-related earnings. He will also provide you with some color around our recent performance, as well as details regarding the increase in the buyback authorization we announced this morning. Martin will conclude our prepared remarks with a few words about Apollo's financial performance before we take your questions.

I'd like to start with some comments on asset growth across the Apollo platform. During the fourth quarter, we generated strong gross inflows of \$22 billion, which brought full year gross inflows to \$60 billion, including more than \$35 billion among our permanent capital vehicles. Notably, this growth occurred in a year where we did not have a flagship private equity fund-raise, which we believe highlights the ongoing expansion and diversification of our traditional product offerings and strategic capital initiatives, as well as the high level of demand for differentiated returns by our fund investors.

Our strong track record through cycles has continued to resonate with fund investors and has led to new and longstanding institutional relationships, not only in successor vintages of flagship funds but in raising capital opportunistically for new and expanding initiatives. Over the past year, we have raised nearly \$13 billion of capital for funds and products that did not exist 5 years ago and we believe our culture of continuous innovation and creativity will serve us well as we continue to build our business.

We are tremendously appreciative of our limited partners, who have continued to be extremely supportive of our growth and diversification. And as just one example, our top 25 LPs have an average of 8 active investments across the platform, which is a 100% increase from 6 years ago.

During Josh's remarks, he will provide some more detail around individual fundraisers, but I'd like to highlight a couple of items that are strategic in nature. During the quarter, Athene, the largest permanent capital vehicle to which we provide investment management services, completed its strategic transaction with Lincoln's fixed annuity business, which helped grow Athene's total assets to \$109 billion, a 41% increase over the prior year. In addition to the Lincoln transaction, Athene continues to grow through a variety of well-established organic channels, with the potential to engage in further opportunistic transactions.

Through the strength of our strategic relationship with Athene, we have provided them a variety of services, including helping them deliver consistent investment outperformance within the life insurance industry. As we noted last quarter, we believe the revised fee arrangement we announced together with Athene in September maintains the strong alignment of interests that has endured since Athene was founded more than a decade ago.

Turning briefly to Athora, its acquisition of Generali Belgium closed earlier this month, bringing its total assets to EUR 15 billion and leaving it well capitalized for further growth. We believe Athora is well positioned to become a best-in-class solution provider and partner for companies across the European life insurance market, particularly with the support of Apollo as a strategic partner.

Moving on to deployment, which has been very strong over the past year, funds managed by Apollo have put more than \$16 billion of capital to work across our credit, private equity and real assets businesses despite a backdrop in which valuations were generally elevated. Our methodical and patient approach of embracing complexity, combined with our ability to source and structure investments in a creative and flexible fashion, has enabled our funds to deploy capital at what we believe are attractive valuations. As the public credit and equity markets began to experience significant volatility in the fourth quarter, we were able to move quickly and opportunistically to deploy capital, often in a variety of situations, we had been tracking for months or years while waiting for the right entry point. In an environment like this, we leveraged the acumen of our experienced investment teams and the power of the long-dated capital we manage to serve as liquidity providers in dislocated markets. We continue to identify and evaluate an active pipeline of investment opportunities across a broad spectrum of asset classes and are optimistic about our ability to deploy capital at a solid pace.

As I have shared with our investors over the past 30 years, my crystal ball isn't any clearer than others, but I do have great confidence in our flexible business model, which has enabled us to repeatedly generate investment opportunities and ultimately attractive returns in any part of the cycle.

Before I turn the call over to Josh, as we look towards 2019 and beyond I believe the prospects for the continued growth and expansion of our business are as robust today, or even better, as they have ever been. I believe that our integrated platform which now employs more than 1,100 people around the world, including more than 400 investment professionals, enables us to deliver strong, long-term investment performance across a range of market environments.

At this time last year, we announced the elevation of Scott Kleinman and Jim Zelter to Co-Presidents and the transition has been even more successful than my partners and I could have imagined. This year I'm pleased to be able to highlight our recent appointments of Anthony Civala and Martin Kelly to the newly created positions of Co-COOs. Anthony and Martin have been key contributors in building our business over a number of years and are great examples of the deep bench of leadership strength at Apollo.

Talent identification, management and advancement are core tenets of Apollo's culture. We believe our steadfast focus on these elements has contributed greatly to our success throughout the years and will continue to do so as we follow our path of growth and innovation across the spectrum of asset classes, investment solutions and strategic initiatives. I expect that all of this activity will translate into the continued strengthening of our earnings power as we drive our business forward.

With that, I'd like to turn the call now over to Josh Harris.

Joshua J. Harris

Co-Founder, Senior MD & Director

Thanks, Leon.

As we've said previously, we believe the earnings power of Apollo is closely tied to our fee-related earnings, or FRE, which is largely based on recurring management fees and which we view as stable, growing and a foundational component of our quarterly cash distributions. The fourth quarter was an excellent case study for this. Despite a challenging market backdrop, we reported FRE of \$0.62 per share, bringing full year FRE to \$1.87 per share, which reflects 22% growth over 2017. This growth is consistent with our track record over the last 5 years, a period during which we have grown core FRE by 21% on a compound annual basis.

Revenues from management fees have comprised approximately 90% of our total fee revenues historically and have been growing at a compound annual rate of approximately 12% over the last 5 years, supported by a very high proportion of permanent capital vehicles and long-dated funds. This growth in management fees, in conjunction with an ongoing focus on efficiency and cost discipline, has driven operating leverage and significant margin expansion. Going forward we will continue to focus on driving our FRE higher, since it is a reliable source of cash each quarter, regardless of whether we have any significant realizations from funds that we manage.

We declared a \$0.56 per share cash distribution in a light realization quarter, bringing the total cash distribution for 2018 to \$1.83 per share for the year.

Moving on, I'd like to provide some additional color on the diverse set of investment products which contributed to the strong \$22 billion of gross inflows in the quarter from flagship drawdown funds, evergreen funds and permanent capital vehicles.

Starting with private equity, which had inflows of approximately \$3 billion during the quarter, we have continued to hold closings for our Hybrid Value fund, which now has commitments of \$3 billion for this inaugural strategy and we have raised approximately \$1.2 billion for our third flagship natural resources fund. And we remain active in fundraising for this strategy.

As it relates to real assets, during the fourth quarter this business generated inflows of \$2.9 billion, the largest component of which was nearly \$1 billion of equity that was raised to complete the acquisition of GE's energy infrastructure equity assets. We believe this important transaction provides us with a unique opportunity to expand our existing infrastructure capabilities and launch a new equity investment platform. The foundation of this platform comprises an attractive portfolio of cash-generating assets, and we believe it is highly complementary to our existing energy and infrastructure strategies.

I would like to highlight that following the completion of the GE transaction, as well as other debt and equity fund-raising activity in the quarter, our global footprint of real assets now totals more than \$20 billion of AUM across the Apollo platform.

Turning now to credit, which generated inflows of approximately \$16 billion in the quarter, and starting with our flagship drawdown funds, we held a fourth closing for the fourth vintage in our Structured Credit Recovery Fund or SCRF. We are pleased to note that SCRF received total [indiscernible] of \$2.5 billion, twice as much as its predecessor fund. And FCI, an insurance-related fund strategy, is raising its fourth vintage. We expect a first close sometime around the end of the quarter.

In addition to raising capital for these flagship funds, we also continued to generate capital inflows from strategic managed accounts as well as several evergreen credit funds, including our Total Return Fund, which now has more than \$6 billion allocated to the strategy. Total Return enables us to navigate the opportunity set across the liquid and performing credit spectrum of our integrated platform to help our fund investors in their search for yield.

In addition, our liquid opportunistic credit strategies, which are designed to take advantage of dislocations in the market through long and short exposures, now have approximately \$3.5 billion allocated to them.

And, finally, among our strategic capital initiatives during the quarter Athene had inflows of more than \$10 billion, of which included \$7.5 billion of assets in connection with their reinsurance transaction for Lincoln's fixed annuity assets.

Before I turn the call over to Martin I'd like to discuss the \$250 million increase to our share repurchase plan announced this morning. As we've stated previously, it's our intention to programmatically immunize dilutions from employee share issuance. And this remains the case. Approximately \$60 million remaining on our existing authorization, and given the recent volatility in Apollo's share price, we felt this was an opportune time to upsize the authorization so that we could continue to manage our share count and also have the option to opportunistically buy back shares in the open market.

As a firm, we are continually presented with numerous alternatives to invest capital for strategic growth and we balance those strategic needs against our view that Apollo is a significantly undervalued company. We believe that the current share price does not capture the inherent strength of Apollo's business model, growth prospects and long-term strategy that Leon and I have discussed this morning. We also believe we will continue to benefit from strong secular tailwinds in our industry, including the search for yield in the ongoing flow of assets from active management to passive management and alternatives.

During our Investor Day 4 years ago we laid out a path for growth that we believed was achievable over the next handful of years, and we have surpassed our highlighted objectives with respect to AUM growth, platform diversification, margin expansion and profitability, amongst others. In the 4 years since Investor Day, we have grown our AUM by 70% to \$280 billion, nearly half of which is permanent in nature. At the same time, our annual management fees have grown by more than 40% to \$1.3 billion. Our core fee-related earnings have grown by more than 75% to \$770 million for the year. And we have meaningfully diversified our product offerings across each of our segments.

You may have seen the detailed framework we published last year which illustrated how we think about valuing Apollo. We expect to publish an updated version shortly that we believe continues to make a compelling case for significant upside in Apollo shares.

With that, I will turn the call over to Martin.

Martin Bernard Kelly
CFO & Co-COO

Thanks, Josh, and good morning again, everyone.

Starting with distributable earnings, the \$252 million, or \$0.61 per share after tax, that we generated during the fourth quarter, was driven primarily by growth and stability of our fee-related earnings, as Josh has highlighted. Fee-related earnings of \$256 million, or \$0.62 per share, were complemented by a modest amount of realized performance fees and realized investment income, principally generated by monetization activity in private equity.

FRE grew 30% versus the prior quarter and 36% versus the fourth quarter of 2017, supported by both management fee growth and advisory and transaction fees. Advisory and transaction fees of \$17 million in the quarter were driven by co-invest fees related to the Catalina, GE and LifePoint transactions. Although transaction fees can be variable on a quarterly basis since they are generally tied to the pace of capital deployment, our full year advisory and transaction fees for 2018 of \$112 million are very comparable to last year's aggregate fees of \$118 million.

In contrast to our strong and growing FRE, our economic net income, or ENI, for the fourth quarter was negative \$1.01 per share post-tax, and was significantly impacted by the depreciation of Athene's stock price and our private equity public portfolio during the quarter. The fair value of Athene decreased by 22% quarter-over-quarter, reflecting the lower stock price, modestly offset by the removal of the liquidity discount on the shares held on our balance sheet. This had a negative \$0.51 per share impact on our economic income in the fourth quarter.

In light of how our business is evolving, we expect to continue to emphasize our FRE and to report distributable earnings, or DE, as our primary earnings metric going forward, as we feel this better represents our underlying operating performance and how we manage the business.

Next, I'd like to provide some context behind the quarter's net performance fee generation. In terms of fund performance, we saw meaningful volatility and dislocation across public equity and credit markets during the quarter, which led to a negative unrealized mark-to-market result across our private equity and credit portfolios quarter-over-quarter. As a result, total performance fees for the quarter were negative \$0.92 per share, net of profit share.

In credit, we were certainly not immune to the marks seen across public credit markets during the fourth quarter and on an aggregate basis the funds we manage generated a blended gross return of negative 2.1% during the quarter, although this compared to negative 3.5% for leveraged loan indices and negative 5% for high-yield bonds. For these same funds, Apollo's full year 2018 credit performance remained a positive 2.2%, outperforming both leveraged loan indices, which increased by just 0.4%, and high-yield indices, which declined by 2.3% over that time period. As a reminder, the credit performance statistics we provide are gross returns that aggregate the performance of all of the credit funds we manage across a range of risk/return profiles, excluding Athene's non-sub-advised assets.

In private equity the portfolio depreciated by 10.9% in the quarter, driven by publicly traded holdings, which depreciated by 29.1%, while the private holdings in the funds we manage were marked down by 3.6% in the quarter. We note that more than half the mark-to-market movement in our funds' public holdings was driven by 5 companies whose stock each declined by more than 25%.

In real assets, our investment performance as measured by the U.S. real estate equity business was down 0.3% during the quarter but remains up 10.2% over the last 12 months. And this segment continues to perform well.

Finally, we note that as of January 29, Athene's shares have bounced back 6% in the quarter and our public-private equity portfolio has recovered by approximately 14%.

With that, we'll now turn the call back to the operator and open the line for any of your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Robert Lee of KBW.

Robert Andrew Lee

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

Maybe at a high level wanted to ask about your overall insurance strategy. So when you think about it, Athene, Athora, Catalina, all kind of driven by your view on shifting insurance markets. I guess FCI is the same thing. I guess maybe there's a 2-part question in this. How do you see that resonating with LPs? And then maybe more importantly in a way, I mean it's been obviously very successful so far, but what could throw a monkey wrench into that? Is it changing regulatory landscape? Just trying to get a sense on -- it's been so successful. What could maybe derail that or -- and what's investor acceptance been?

Gary W. Parr

Senior Managing Director

Yes. So, it's Gary Parr speaking. I think maybe Leon's reference to the crystal ball -- predicting where monkey wrenches are is always difficult to do. But let's turn it around, as to the opportunities. Today -- we talked about this 2 years ago with you all, about where are the opportunities in the landscape. And most of what we see today is similar and there's similar opportunities for the platform. What's interesting is we have more strategic partners today, as you talked about. We added more capital to Catalina in the course of the last 12 months. We've not fully capitalized Athora. And it is -- Athora spends a lot of time building out the platform. So when you look at the landscape, for example, in Europe the pressures on the companies there from Solvency II actually are getting more pressed. The notion of which geographies companies will position in has been an increasing pressure on a lot of the large companies. So we see opportunity there. In the U.S. the issues similarly in lines of business where people are exiting certain legacy lines of business. Interestingly, in the last 12 months, to use another good example, Catalina and FCI worked together to do a transaction where something -- it was a workers' compensation line of business, but it could be actually split into 2 components, one that fit into FCI and one that fit into Catalina. So we're finding ways. Again, you've heard us talk about solutions. We have a number of these different strategic affiliates and partners where we can try to deliver solution. So the landscape still looks attractive to us. Of course, we have competitors in certain of the lines or certain components. But actually, in coming with solutions we're actually uniquely positioned.

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes, I'd say there's been significant LP acceptance of it as kind of demonstrated by the permanent capital vehicles we continue to raise and then the FCI fund that we talked about. And we've got numerous other things that we're thinking about. But, look, the reality is, as Gary said, we have the largest -- things don't come in neat packages. And certainly the easy stuff is being copied, but the ability to navigate multiple lines of insurance and solve problems for insurance companies is really unique to us, and we're going to continue to innovate and stay ahead of what everyone else is doing.

Leon D. Black

Founder, Chairman & CEO

And clearly, the proof is in the pudding, as you can see with the recent Lincoln transaction and last year the Voya transaction, which was pretty creative and unique, and what just happened with the closing of Generali Belgium. So, yes, it is a competitive landscape but I think given our scale and the different platforms we have and the different management groups and the capital -- I mean, I think Athora is the best example. We're now at \$15 billion of AUM there, but we're capitalized to be able to take it up to \$50 billion if and when the right opportunities arise.

Operator

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

Alexander Blostein

Goldman Sachs Group Inc., Research Division

So wanted to ask you about deployment that you saw in the fourth quarter and obviously some of the forward comments that Leon made about the opportunity. So I guess how have conditions from a financing perspective evolved over the course of the fourth quarter? And I'm really just trying to get to what sort of changed between some of the traditional bank sources and alternative sources and what implications that sort of has for your business. And then, Leon, again to your point about the environment and seeing more attractive opportunities to deploy, any kind of color on where you're seeing the most attractive opportunities right now, whether in private equity, in credit, would be helpful.

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes, so I'll start. But on the credit side certainly, the volatility in December provided us the opportunity to deploy a bunch of capital. It was short-lived in the sense that the credit markets rallied in January and have recovered a lot of what they had -- and retraced some of the losses. And so we took advantage of it. You have to -- things are very quick these days and you have to be prepared. In terms of financing, I'll start but then I'll turn it over to Scott. I mean, we were able to -- if the entity is still available, I mean the credit markets hung in there. Obviously, when you're doing larger financings, you get multiple banks involved because they are large commitments. And certainly, some of the terms and the rates backed up, but it was still available. It just got more -- some of the costs got higher and the covenants got a little tighter. So, Scott, I don't know if you had anything to add.

Scott M. Kleinman

Co-President & Lead Partner of Private Equity

No. I would just reiterate what you're saying. I mean, obviously, over the holidays, the combination of the holidays plus that's when we saw some of the highest volatility banks pause for about a week before and a week after the New Year. But otherwise, banks are providing financing at certainly similar quantum in the last year, as Josh said, at slightly higher cost of financing. But for attractive deals, the financing markets are still there, for sure.

Joshua J. Harris

Co-Founder, Senior MD & Director

The significant drawdown you saw in the equity markets, you saw some drawdown in the credit market but it was much more muted and retraced more quickly. So we didn't see as much opportunity as we would hope.

Operator

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

Michael Roger Carrier

BofA Merrill Lynch, Research Division

Given the challenging quarter on the PE side in terms of performance, can you provide an update on how the underlying companies are performing versus the public market volatility and, more importantly, just how you think about the exit and realization outlook over the next few years?

Scott M. Kleinman

Co-President & Lead Partner of Private Equity

Sure. So from a performance quarter, notwithstanding the equity market volatility, Q4 continued the trend that we had seen for much of the year, solid mid-single digits across the portfolio on average, sort of mid-single-digit revenue and EBITDA growth across the portfolio. The vast, vast majority of the companies are in very good shape. The 1 or 2 instances not, it's more of an idiosyncratic company-specific issue rather

than seeing the signs of some broader macro issues there. So we continue to feel good about sort of the underlying performance into '19 across the portfolio. Look, as far as exit and monetization, it's pretty consistent with what we've been saying for the last few quarters, which is '19 should be -- assuming there's not a massive market meltdown, '19 should be better than '18 and '20 will be better than '19, as we have a fund date that is reaching maturity and we'll be able to start, I think in a more meaningful way, start to monetize investments. In the interim, we've been executing dividend recaps where prudent and we'll continue to do so. But, yes, that's the outlook.

Leon D. Black

Founder, Chairman & CEO

Look, clearly what we've seen in our portfolio is a microcosm of what's been going on between the markets and the underlying economy in the U.S., where the fundamentals actually have been pretty attractive, as Scott just said, vis a vis our own portfolio in terms of revenue and earnings growth. But the market got very skittish, obviously, in the fourth quarter in terms of stock volatility. I think our view is just to keep our heads down and just keep producing good quarters of earnings until the market becomes more rational again. And that's when you'll see more monetization.

Operator

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

Devin Patrick Ryan

JMP Securities LLC, Research Division

The question's on performance fee-generating AUM. Within credit, it declined about \$10 billion in the quarter. I know there's always going to be some moving parts within that. And just trying to think about the drivers of that decline. It just seems kind of like a big number relative to the blended decline in credit performance. It was down about 2%. So if there's any other detail you can give, that would be helpful.

Martin Bernard Kelly

CFO & Co-COO

Yes, sure, Devin. The 2% markdown across the board, it was concentrated in a lone fund that has an 8% profile. And over the last number of quarters, it's been on or around that level. And it's flipped in and out of carry a number of times. So that's half of it. And the other half is some CLO structures that fell below their carry [prof]. As Josh mentioned before, a decent amount of that has reversed itself in Q1 so far with the rebound in the credit markets.

Operator

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

Devin Patrick Ryan

JMP Securities LLC, Research Division

Martin, a quick one for you. How should we be thinking about the growth rate of your expenses for 2019?

Martin Bernard Kelly

CFO & Co-COO

Yes. So we've increased our margins. FRE margins are up to 54%. And that's been a steady trend now for some years. We're very focused on expense management. And we would expect that that will continue and we'll sort of shape the expense around revenue growth. I think in terms of noncomp I would expect noncomp -- away from placement fees, which are specific to particular fund-raising, noncomp expenses should be sort of inflationary growth. And then on comp, we may selectively invest more in people this year. But we'll do that carefully around revenue growth as it emerges.

Operator

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

William R. Katz

Citigroup Inc, Research Division

Just following up on that last question. Thanks for taking the question as well, obviously you gave a pretty strong margin in the fourth quarter. Transactions were up somewhat. Could we sort of level set, just as you think about what's the right start point for FRE margins as you look into '19 sort of against the revenue/expense dynamics you just pointed out?

Martin Bernard Kelly

CFO & Co-COO

Sure. So Q4 was high given the transaction fees at 60%. In our current footprint that's not sustainable. And that sort of brought the full year FRE margin to 54%. We wouldn't expect to see that go down. And so we'll manage our expenses around that. So I would expect at or around that level, slightly up, is sort of where you should expect to see the margin.

Operator

Your next question comes from the line of Craig Siegenthaler of Credit Suisse.

Craig William Siegenthaler

Crédit Suisse AG, Research Division

So credit had a gross return of negative 2% in 4Q. And I see you highlighted strength in the permanent capital vehicle. So I'm wondering if you could provide some color on how midcap and the credit drawdown funds performed, especially the drawdown capital that sits inside of Athene.

Martin Bernard Kelly

CFO & Co-COO

Midcap's performance was as it has been. Midcap's assets are largely almost exclusively first-lien loans with strong protection and very, very small, low single-digit default rates. So midcap, there's nothing to call out about midcap's performance in the quarter that's any different from what it's been. And then Athene, Athene doesn't have much at all in the way of assets that are in drawdown funds. The far majority of their funds, their assets are invested in loans, performing loans and sort of higher-grade commercial real estate debt. So there's not much to speak of at all in drawdown funds on Athene's balance sheet.

Operator

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

Patrick Davitt

Autonomous Research LLP

Scott, this is probably for you. You called out a few idiosyncratic problems in the portfolio and I think, whether it's fair or not, those idiosyncratic losses or marks over the last year have created a perception that your portfolio might be a bit hairier or riskier than others in the comp group. Through that lens and as you look through the portfolio now do you think that those handful are the ones that we need to worry about and the pain is now past and we can kind of move forward from that?

Scott M. Kleinman

Co-President & Lead Partner of Private Equity

So, I'm going to pick up on the comment Leon made about separating the marks versus the underlying situations. The names that have probably caused more of the volatility in the portfolio, some of the bigger public marks, are actually performing quite well. It's really a matter of working through and getting the market to appreciate the value being created in those companies. As far as some of the idiosyncratic or situation-specific issues in the portfolio, that related to 1 or 2 names, particularly around some names in the energy space, where there's been some activity. And I think the portfolio is pretty conservatively marked. I mean, as a portfolio, in general, I think we have leverage across the Apollo PE portfolio today about as low as I can remember it, so incredibly defensively postured to the extent of any type of

downturn should one occur over the next 6, 12, 18 months. So I actually feel pretty good about where the Apollo portfolio is from a fundamentals and a defensibility standpoint. Really the focus for the existing portfolio right now is driving towards exit opportunities for this portfolio, some of which is going to be market dependent and some of which is going to be creating the opportunities that we've been able to do in the past.

Joshua J. Harris

Co-Founder, Senior MD & Director

I would just add, the fund [date] is now a 17% return, so you can't really -- it's doing quite well. You can't really -- it's still a bit early.

Leon D. Black

Founder, Chairman & CEO

2.5 years.

Joshua J. Harris

Co-Founder, Senior MD & Director

2.5 years on average. So I think it's doing fine and we have -- overall we have sort of around 3x-leverage-ish, a little bit more. But it's very underleveraged, as Scott said. And it's marked at a very conservative multiple that is well below the market multiple, so I think -- but appropriate. So I think you can't really sort of -- there were a bunch of high -- the thing ran up a bit. It's kind of slowly gone up from there. And we have a really rigorous valuation process. We try to reflect changing market prices. But you can't sort of take a quarter or 2 and run with it. You have to look at the overall picture.

Operator

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

Michael J. Cyprys

Morgan Stanley, Research Division

I wanted to circle back on the energy infrastructure business that you're building out. Can you just talk a little bit more about the goals and aspirations that you have there, what this business you think could look like in, say, 3 to 5 years' time? Then also if you could kind of walk through kind of what's next on your to-do list there.

Scott M. Kleinman

Co-President & Lead Partner of Private Equity

Sure. So as we talked about in a previous quarter, we did acquire at the end of the quarter, of this past quarter, GE's infrastructure equity business. We've been in the infrastructure business in some form or fashion for some time. We have a multibillion-dollar infrastructure debt business. And of course, we have a large energy business which touches many of the infrastructure sectors that we acquired. As we've been looking for the right -- you know, infrastructure is a very interesting space that lends itself very much to the type of skill set that Apollo brings to investing. And what we had been looking for was the right infrastructure equity investing platform to really build around. We found that as a start with the GE business that we acquired at year-end, which is focused on a variety of energy, both renewable and traditional energy assets, both here in North America and globally. And so over time, our expectation would be to continue to grow that base, combining our debt expertise and now some of our equity expertise. We have been adding infrastructure professionals and we'll continue to grow that business through '19 and beyond. And so it's a place I'm pretty excited and I would think over time you'll hear us talk about additional fundraises and hopefully some meaningful growth.

Operator

Your next question is a follow-up from Robert Lee from KBW.

Robert Andrew Lee

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

This I guess is a question for Josh. I think it was maybe about a year or so ago; I forget exactly when, you kind of ventured and talking about the momentum in FRE growth and capital raising. You kind of I think ventured that a base line distribution, the way maybe you were thinking of it, worse case was around \$1.30 or so. And obviously, you've continued to grow. You had \$1.80-odd in distributions last year. So any willingness to update that and how you're seeing as kind of your true base line and what you think you could distribute each quarter, given where you are today?

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes. Look, I mean, obviously, we haven't formally done that. But clearly the earnings -- I mean, you're 100% right that the earnings power of the business is up significantly. And so we're likely to update that and reflect -- and to your point, obviously, we did kind of announce \$1.70. Clearly, that's -- we've been growing at a 21% a year over the last 5 years. So clearly there's -- and there's momentum going into '19 from even just the annualization of Fund IX and the annualization of some of the Athene transactions. And so you can see significant growth continuing. And so clearly we are going to distribute a much higher level of cash. And so, yes, we will likely update it.

Martin Bernard Kelly

CFO & Co-COO

And I'd just say as the year ended we had about a 14% FRE tax rate. So if you just look at after-tax cash flow from FRE for the year, it was \$1.58. And then we've got tailwinds, as Josh suggested, off Fund IX, Voya and Lincoln, that should drive that further.

Operator

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

Glenn Paul Schorr

Evercore ISI Institutional Equities, Research Division

Wonder if you could help us with some sort of qualitative or attribution analysis on the BDCs. Obviously a tough quarter and tough year. So I just don't know if you could help us go towards what type of assets took on most of the marks and maybe if there's been some recovery in January so far. Thank you.

Gary W. Parr

Senior Managing Director

Appreciate the question. I guess it's tough for us to talk about the public BDC. They have not reported earnings yet. So I think we don't want to get in front of that, given the fact they're public.

Glenn Paul Schorr

Evercore ISI Institutional Equities, Research Division

Okay. Maybe as. . .

Joshua J. Harris

Co-Founder, Senior MD & Director

De minimis. It's a de minimis amount of money and it wouldn't be fair for us to get in front of them.

Glenn Paul Schorr

Evercore ISI Institutional Equities, Research Division

No problem, no problem. This should be an easy one. We had the temporary closing of the SEC. I'm sure there's a pipeline for them to get through. But it is still January, so -- or at least for a couple more hours. Do you see any impact on the first quarter? Or do we have enough time to kind of get through whatever would have been gotten through for you guys?

Scott M. Kleinman

Co-President & Lead Partner of Private Equity

No. More broadly speaking, the government shutdown has had a very small impact, if any, on the portfolio at large. I mean, even within our PE portfolio a couple of companies touch federal contracts or things like that. And so they were backed up for 30 days. But, no, from a overall standpoint will have a virtually nonexistent effect on anything that rises to the AGM level.

Operator

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

Michael J. Cyprys

Morgan Stanley, Research Division

Just wanted to circle back on just your change to kind of focus on DE going forward as your primary earnings metric. Can you just elaborate a little bit more in terms of what we can expect in terms of disclosure changes? Will you be putting up an updated 8-K with a new sort of income statement? And are you still planning to show ENI? What can we expect there?

Martin Bernard Kelly

CFO & Co-COO

Yes, Mike, so we're still working through that. I think you should expect that we'll put out an 8-K that formalizes the changes we're announcing well in advance of publishing our next earnings.

Operator

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

Gary M. Stein

MD, Head of Corporate Communications, Client & Product Solutions

Great. Thanks, operator. And thanks, everyone, again for joining us this morning. We'll look forward to speaking with you again next quarter. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's Apollo Global Management's Fourth-Quarter and Full-Year 2018 Earnings Conference Call. You may disconnect your lines at this time. And have a wonderful day.

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