S&P Global
Market Intelligence

Apollo Global Management, Inc.

NYSE:APO

FQ4 2019 Earnings Call Transcripts

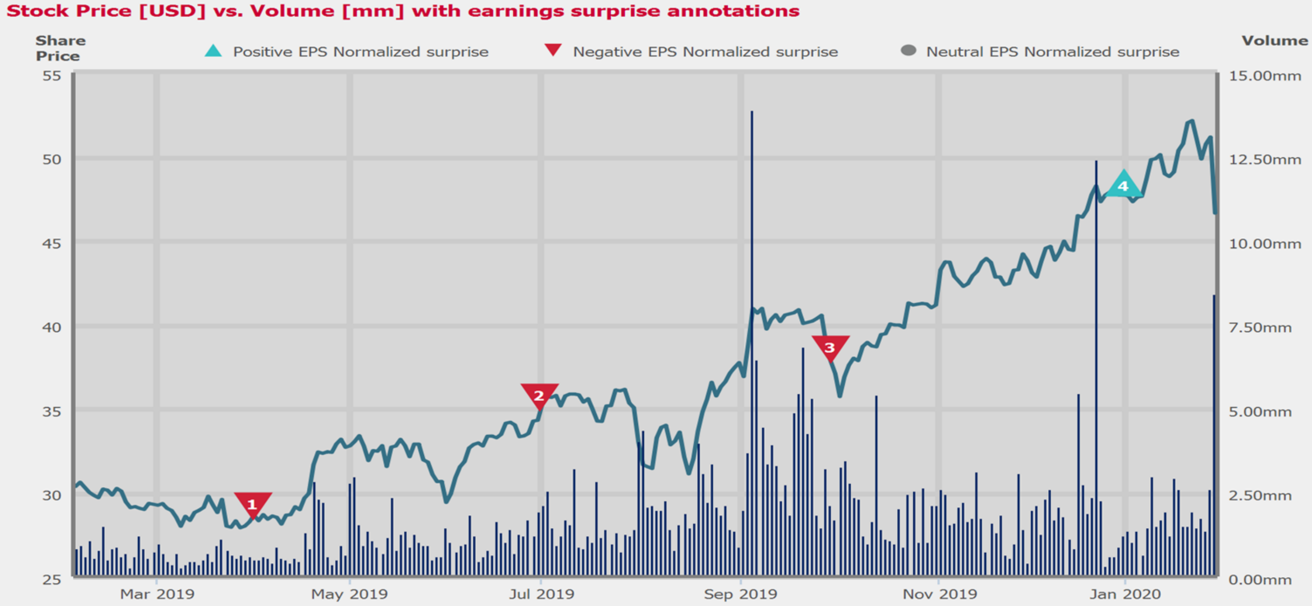
Thursday, January 30, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.73	1.10	▲50.68	0.66	2.32	2.71	
Revenue (mm)	435.26	448.71	▲3.09	433.35	1620.10	1635.07	

Currency: USD
Consensus as of Jan-29-2020 11:07 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.64	0.50	▼(21.88 %)
FQ2 2019	0.57	0.56	▼(1.75 %)
FQ3 2019	0.58	0.54	▼(6.90 %)
FQ4 2019	0.73	1.10	▲50.68 %

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Call Participants

EXECUTIVES

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

Gary W. Parr
Senior Managing Director

Joshua J. Harris
Co-Founder

Leon David Black
Founder, Chairman & CEO

Martin Bernard Kelly
CFO, Co-COO & VP

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BofA Merrill Lynch, Research Division

Patrick Davitt
Autonomous Research LLP

William R. Katz
Citigroup Inc, Research Division

Presentation

Operator

Good morning and welcome to Apollo Global Management's Fourth Quarter 2019 Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

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

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

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

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

Great. Thanks, operator. Welcome to our fourth quarter 2019 earnings call. Joining me this morning are Leon Black, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer and Co-Chief Operating Officer. Gary Parr, Senior Managing Director, is also here with us and will be available during the Q&A portion of our call.

Earlier this morning, we reported distributable earnings of $1.10 per share, which led to a cash dividend of $0.89 per share for the fourth quarter. The quarter's distributable earnings were driven by pretax fee-related earnings or FRE of $0.59 per share and strong performance fee generation from our private equity and credit businesses.

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

Leon David Black
Founder, Chairman & CEO

Thanks, Gary. Good morning, and thank you all for joining us. I'd like to first to focus my remarks this morning on the extremely productive year we had in 2019 at Apollo. Following that, I'd like to briefly highlight the continued strong growth trajectory that we see ahead for the firm. From there, Josh will spend a few minutes discussing the firm's recent operating performance. And then Martin will provide greater detail on our strong financial performance for the year and the quarter.

As I reflect on the past year, it is quite remarkable to consider the many meaningful changes that have taken place with respect to Apollo and the positive impact these changes have had on our firm and our shareholders.

Just to recap a few key events during the course of the last few quarters: one, we've announced and completed our conversion from a publicly traded partnership to a C corporation effective last September 5. Pursuant to our conversion, we have already been included in some major indices, such as the CRSP and S&P Total Market indices, and have seen an over 50% increase in our long-only and passive ownership. We have also benefited from greater liquidity in our stock as our average daily volume has doubled since our conversion.

Two, in October, we announced an important transaction to strengthen the strategic relationship between Apollo and Athene. Through this transaction, Apollo and certain of its related parties and employees will nearly double their ownership stake in Athene to approximately 35%, with an option to purchase an additional 5%. Athene will be eliminating its dual-class structure and taking on approximately a 7% stake in Apollo, marking the first time it will have a direct economic interest in our financial success and further increasing the alignment between our 2 companies.

Third, in November, we hosted an Investor Day. The key points we communicated through the course of the day were, firstly, the fact that Apollo offers shareholders both high growth and an attractive yield. In addition, we offered a robust view of our long-term growth objectives and laid out the path for how we expect to achieve them. Specifically, over the past 5 years, we've been able to double our AUM and FRE, and we believe that we will be able to do so again over the next 5 years.

We also felt that we were significantly undervalued. And while investors have begun to recognize the value of our franchise, we believe Apollo is still an extremely attractive investment.

I'd also mention that our Investor Day provided us with an excellent opportunity to showcase many leaders from across our organization. We're very proud of the deep bench of talent we have at Apollo and are pleased that we were able to feature a handful of the many people that have helped drive Apollo's great success.

Finally, during our Investor Day in response to recommendations from many of you, our shareholders, we unveiled a new minimum cash dividend of $0.40 per quarter or $1.60 per year. We believe this minimum dividend is reflective of the strong and growing cash-generating power of our business and is supported by our stable and recurring fee-related earnings without including any upside from our incentive business.

We were optimistic that by undertaking these actions throughout the year, we would be able to unlock meaningful shareholder value. And that has certainly come to pass as Apollo stock returned approximately 100% during 2019. In connection with our corporate conversion, we have also seen a significant shift in our shareholder base towards larger, longer-term-focused investors, and we believe this transition is still in early innings.

When I look at our business today, I see a franchise that has tremendous secular tailwinds at its back as low interest rates globally have made it increasingly difficult for investors to meet their income and return requirements in the public arena. Today, we have built the largest alternative credit platform in the world, with over $215 billion of AUM and more than 20 different credit strategies to meet these investor needs. As we continue to scale our broad insurance capabilities, we have continued to expand our differentiated yield capabilities in order to drive strong performance across the platform. We have also delivered industry-leading private equity returns of 39% gross and 25% net IRRs since Apollo's founding in 1990, 30 years ago.

In addition, investors are increasingly consolidating their relationships with trusted partners like Apollo, driving continued growth of our AUM. Half of our AUM is now permanent capital, which is the most stable and sticky kind of capital there is. And over 80% of our AUM is in permanent capital vehicles or has a contractual life of 7 years or more from inception.

As a firm, we've been able to deliver exceptional performance over 30 years and develop a world-class brand name, driven by our integrated global platform, our deep bench of talent and our continued commitment to excellence.

As we've discussed before, embedded within our culture of excellence is our commitment towards socially responsible investing, which has been a cornerstone of our investment process for many years. As a reminder, a few months ago, we published our 10th annual ESG report, in which we disclosed in great detail the many ways that we've engaged with portfolio companies of Apollo managed funds across environmental, social and governance factors. We encourage everyone to review that report, and we look forward to engaging further with our investors on this very important topic.

With that, I'd like to turn the call over to Josh to provide some color around the firm's recent operating results.

Joshua J. Harris
Co-Founder

Thanks, Leon.

Starting with AUM and flows. We ended the year with total assets under management of $331 billion, reflecting an increase of 18% year-over-year. As of year-end, our AUM in permanent capital vehicles grew to $166 billion, representing about half of our total assets under management, while fee-generating AUM grew to $246 billion, up 15% year-over-year. Our strong growth in AUM was driven by gross inflows of $64 billion for the year and $10 billion for the fourth quarter.

During the quarter, flows were anchored by organic growth that is seen in mid-cap as well as a number of new innovative investment strategies that didn't exist a year ago, including ADIP, our revolver fund, and the acquisition of GE Capital's PK AirFinance aircraft lending platform, which closed during the quarter. Our culture of innovation has continued to resonate strongly with investors.

I'd like to take a moment to provide a little more color on 2 of the strategic vehicles I just mentioned, PK AirFinance and ADIP. PK AirFinance, which we and the team just acquired from GE Capital, is the most recent example of our ongoing efforts to expand the breadth of our direct origination capabilities within our credit business. PK is an industry-leading aviation lending businesses, which is scalable and highly complementary to the existing Merx aircraft leasing platform. Across the Apollo platform, we now manage aviation-related assets of nearly $7 billion.

Regarding ADIP, to date, we have closed on more than $3 billion of capital commitments, which when combined with the Athene's stand-alone capital, represents over $70 billion of cumulative buying power for potential incremental assets through M&A and pension risk transfer restriction -- transactions.

While the timing of M&A is always difficult to predict, we're very optimistic that the potential to transact within the insurance space remains strong. And through ADIP and our other insurance capabilities, we believe we and Athene possess a unique capital solution and comprehensive and holistic set of tools to address industry opportunities.

As a result of Apollo's strong asset under management and fee-generating AUM growth throughout the year, management fees grew steadily to $1.5 billion for the full year 2019, reflecting 16% growth year-over-year. For 2019, we generated $902 million of fee-related earnings or FRE, representing a 17% increase over the prior year.

As we highlighted during our recent Investor Day, we have demonstrated consistently strong FRE growth throughout the years and believe we can continue to achieve robust growth going forward through a combination of organic capital raising and strategic capital initiatives. The funds we manage also have approximately $46 billion of dry powder, approximately half of which will begin to earn management fees as capital is invested, providing some visibility into FRE growth just from the AUM we already have available across our platform today.

Finally, Athora continues to work constructively with regulators regarding its previously announced acquisition of VIVAT, which remains subject to regulatory approval.

Moving on to deployment. Despite an elevated valuation environment over the past year, funds managed by Apollo put more than $15 billion of capital to work in our drawdown funds across our platform and across credit, private equity and real asset businesses, which is an increase from deployment over the last few years. During the fourth quarter, the private equity funds we manage entered into a definitive agreement to acquire Tech Data, a leading global distributor of technology products, services and solutions. Inclusive of Tech Data and certain other acquisitions announced during the quarter, our private equity Fund IX is now 24% committed or invested. Our methodical and patient approach of embracing complexity, combined with our expertise in sourcing and structuring investments in a creative fashion, have enabled our funds to continue deploying capital at what we believe are very attractive valuations.

Finally, we continue to feel very good about the prospects for Fund VIII, which was put to work at an average creation multiple of 6.5x prior to cost airings. And that's nearly 5 turns below industry average multiples. The ongoing seasoning and maturation of portfolio companies within the fund should drive meaningful monetization activity over the next few years.

With that, I will turn the call over to Martin to cover some of the financial highlights of the quarter and the year. Thank you.

Martin Bernard Kelly
CFO, Co-COO & VP

Great. Thanks, Josh.

Starting with the results for the fourth quarter, we continued to demonstrate the strength, stability and growth of our fee-related earnings, which increased to $0.59 per share on a pretax basis for the quarter. The higher fee-related earnings were supported by advisory and transaction fees from activity across our private equity and credit segments. This growth in FRE, combined with meaningful realization activity in private equity and performance fee generation across various credit funds, led to an increase in distributable earnings to $455 million or $1.10 per share.

Private equity performance fees were driven by a handful of realization events, most notably for Verallia, Presidio and ADT. Performance fees in credit were well diversified and generated from multiple opportunistic corporate credit funds as well as mid-cap, our FCI strategy and several other credit funds. Approximately $0.20 per share of performance fees recognized in the fourth quarter were associated with transactions that we had previously expected to close in early 2020.

For the 12 months ended December 31, 2019, FRE totaled $2.19 per share, reflecting 17% growth over the prior year. This growth was supported by 16% management fee growth and a continued emphasis on efficiency and cost discipline, allowing for some modest margin expansion year-over-year to 55% on a full year basis.

Distributable earnings were $2.71 per share for 2019, 28% higher than the prior year, driven by a combination of FRE growth and higher performance fees. We declared an $0.89 per Class A share dividend for the fourth quarter, bringing the total Class A cash distribution for the 12 months ended December 31, 2019, to $2.35 per share.

Turning to investment performance. In private equity, the funds we manage appreciated by 4% in the quarter as gains in our public portfolio outweighed some headwinds in our private energy portfolio. The fund's public equity portfolio company holdings appreciated by 20.6% during the quarter led by portfolio holdings such as ADT, Verallia and Watches of Switzerland, while the fund's private equity portfolio company holdings depreciated by 1.9% primarily impacted by mark-to-market adjustments on energy investments that offset appreciation in the remainder of the private portfolio.

Notably, performance for Fund VIII remains strong with the fund appreciating by 5.9% in the quarter, bringing 2019 total appreciation to 21 -- to 24.1%.

In credit, we generated another quarter of strong performance across the board, with gross returns of 2.2% for corporate credit, 2.5% for structured credit and 2.6% for direct origination, outpacing the S&P Leveraged Loan Index total return of 1.7%. For the full year 2019, gross returns were also very strong, with performance of 10.6% for corporate credit, 13% for structured credit and 12.2% for direct origination as compared to the S&P Leveraged Loan Index total return of 8.6%.

We're very pleased with the performance across our credit businesses as we benefited from our decision over the last few years to move into more senior components of capital structures and to selectively reduce energy and retail exposure. As our credit platform continues to grow in breadth and depth, we've been able to utilize our scale and global integrated platform to find what we believe to be attractive, high-grade opportunities to generate returns as opposed to reaching for yield in lower-rated or distressed situations.

In real assets, performance was very strong for the quarter with aggregate appreciation, excluding real estate debt, of 7.5% driven by robust appreciation in our European principal finance infrastructure equity and U.S. real estate funds. For the year, our real assets funds, excluding real estate debt, returned 16.2%.

During the fourth quarter, our net accrued performance fee balance declined by 4% as positive marks across our private equity, credit and real assets businesses were offset by the high level of realizations during the quarter. On a year-over-year basis, net accrued performance fees grew by 60%. The underlying growth in net accrued performance fees, in conjunction with continued strong performance across our private equity business and Fund VIII, in particular, continue to provide us with confidence that we are in the early stages of a period of higher realization activity.

However, in terms of near-term net performance fee realizations, we currently expect that net realized carry in 2020 will approximate 2019 levels driven by 2 factors: first, as I mentioned earlier, during the fourth quarter, we recognized approximately $0.20 per share of net performance fees related to transactions that we had originally expected to close in the first quarter of 2020. And second, we recognized some impairments in Fund VIII during the fourth quarter, principally on Fund VIII's investment in Constellis, which need to be recouped in early 2020 before future performance fees may be distributed. Due to both of these factors, we expect the first quarter of 2020 to be a light quarter for net realized performance fees.

After considering higher financing costs related to AGM's 2019 debt transactions and taxes on net performance fees resulting from our C corp conversion, we currently expect net after-tax earnings generated by incentive income to be lower in 2020. Over the medium term, however, we continue to feel very good about the prospects for Fund VIII and expect that the continued seasoning and maturation of portfolio companies within the fund will drive meaningful monetization activity.

Before I conclude my prepared remarks, I'd like to make a few comments regarding our expectations regarding expenses, tax rate and share count as we head into 2020.

Comp and noncomp expenses grew during the fourth quarter driven by a combination of investment and certain nonrecurring items. From a comp perspective, there was a ramp in the fourth quarter as we have continued to bring in new talent to support our growing businesses. Within our noncomp line, there were certain nonrecurring professional fees that impacted the fourth quarter.

As we look out into 2020, we expect to continue investing across the Apollo platform and, therefore, anticipate that FRE margins over the next year should be in line with 2019 levels, i.e., around 55%. We're highly committed to maintaining our best-in-class FRE margins and believe we have a high level of control over the levers that drive our expense base while we continue to invest for long-term growth.

Regarding taxes, our full year DE tax rate was low, impacted by the split publicly traded partnership and C corp year. Therefore, we continue to point you to the comments we previously provided in conjunction with our C corp conversion, which is that over a realization cycle, we believe our effective tax rate should be in the mid- to high teens.

Regarding our share count. Subsequent to the closing of the Athene transaction, which we expect to close this quarter, and considering expected net employee share vesting and delivery during the first quarter, we expect our diluted share count at the end of the first quarter will approximate 443 million shares.

Finally, as a reminder, we issued $300 million of fixed rate resettable sub notes during the quarter. This marks the first time that we have raised debt in this structure and represents a further diversification of our sources of liquidity across various structures in a favorable credit market.
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] Our first question comes from the line of Bill Katz of Citi.

William R. Katz
Citigroup Inc, Research Division

So maybe a big picture one, Leon, just sort of building on sort of your -- as you sort of think the migration of the company has been over the last couple of years, including the conversion to C corp. Can you talk a little bit about other things you might be able to do to broaden out the potential for index and other sort of passive-oriented investors to buy the stock? I guess maybe the specific question is whether or not you'd be willing to move to a more single-class share class or give up some voting rights to broaden out that appeal. And then I have a follow-up question.

Joshua J. Harris
Co-Founder

Yes. I think I'll take that one. Look, we're very focused on making the stock easier to own and create more liquidity and being very investor-focused. So we're looking at all that. I don't think we have any specific conclusions yet. So -- but I appreciate the question.

William R. Katz
Citigroup Inc, Research Division

Okay. And just as a follow-up, and Martin, thanks so much for guidance. Just can we level set exiting the fourth quarter of what may have been sort of a run rate level of comp and doing noncomp, just given some of your prepared comments? And then could you sort of flesh out where you're looking to spend as you think about 2020?

Martin Bernard Kelly
CFO, Co-COO & VP

Sure. So it's principally driven by bringing new talent into the firm. And that is related to the opportunities that we see in front of us that we laid out at the Investor Day. So last year from start to end, we added close to 20% of new head count on a net basis. And that's for all the reasons that we've spoken about, opportunities, building new platforms and building out the support functions in enterprise solutions to support that. So we're very committed to our best-in-class margins. We are very disciplined on how we make investment decisions. Investment decisions are P&L costs for us. And so as we look forward, as I mentioned, we would expect our margins to maintain around their current levels as we set a foundation for the future growth that's in front of us.

Joshua J. Harris
Co-Founder

Just to hop in on this one. I mean obviously we have 55% FRE margin, EBITDA margins. That's the best in the industry. We're investing north of $100 million. We're expecting to invest north of $100 million in everything from infrastructure, investing capability to large-cap lending capability, to direct lending capability, to building a lot of the platforms that we've already been talking about and are continuing to expand on our insurance and financial services capability as well as like looking much harder at our platform more generally, including technology, data and analytics, risks. So ultimately, I think we would expect our margins next year to be similar to this year. We have a lot of control over what we do, but we see a lot of opportunities.

Operator

[Operator Instructions] Our next question comes from the line of Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Just a follow-up to the first question, are there any negatives that maybe we could be missing as we think about the very small corporate governance changes that are required for a Russell 1000 add?

Joshua J. Harris
Co-Founder

Yes. I mean I think ultimately, you're right. We don't think you're missing anything.

Leon David Black
Founder, Chairman & CEO

I would add to that. Look, we've done the C conversion. We've gotten on a few indexes. We see how powerful that is in terms of expanding our shareholder base with long-only shareholders. And it's something that we'd like to be able to continue and extend that momentum. And so it's something we're looking at and we're very focused on and would like to get to the place where that momentum can be significantly expanded with things like the inclusion of Russell. But obviously, a call such as this, we can't commit ABC before we can get there. But it's something that we think extremely seriously and I think would be to the benefit of most of the stakeholders.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

So maybe just on the performance fee comment for 2020 being in line with '19. Because I get the accelerated comment in terms of 4Q '19 coming in better, and so that's going to impact 2020. But maybe just a little color on some of the comments on the impairment and some of the catch-up, like maybe how significant that is?

And then maybe tie that in to, I think, Josh, what you were saying just at Investor Day. And I know you didn't say a year, you said over the next few years or multiple years of just that $1.50 to $2 number in performance fees, the potential just given where we are in that cycle.

Martin Bernard Kelly
CFO, Co-COO & VP

So Mike, I'll hit the first one. So the impairment is, we think, likely can be contained within Q1. It's around $0.13 of net carry that needs to be made up before -- within Fund VIII before Fund VIII can sort of get back to distributing.

Joshua J. Harris
Co-Founder

Yes. I mean and then you had the $0.20 that flipped from 1 year -- fourth -- from first quarter to fourth quarter. But -- I mean I'd say, look, I mean I think we still continue to believe that that's the right range for performance fees. So I think like, obviously, quarterly -- predicting quarterly realizations in highly complicated, ever-changing markets is difficult. But -- so having said that, long run or medium run, we see value building in the fund. We're well into the carry there. The fund is 3.5 years old. We bought it at 6.5x EBITDA pre-cost savings, under 6% post-cost savings. And we see a lot of progress in the underlying companies. And so we're expecting that that fund will generate a lot of carry, and I think we put those numbers out there and continue to believe them.

Leon David Black
Founder, Chairman & CEO

And I think our view is that that fund should achieve the 2x that our funds have achieved over 30 years. It's a high-quality fund that we feel very good at -- about. And the monetizations will be heavier, in our view, over the next year to 2 years.

Operator

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

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Just maybe digging a little bit further into the performance fee commentary. So I guess, one, can you help us size how much Q4 net carry benefited from utilization of margin loans? I think there was a Verallia one and maybe another one, but I think Verallia was the only one. And more importantly, as we think about the capacity to do more of those type of transactions, I think you have one out for OneMain, what could that look like in the first half of the year? Because that feels maybe a little bit within your control.

Martin Bernard Kelly
CFO, Co-COO & VP

Yes. So Alex, it's -- the impact to the margin lines in Q4 was around the same number. And not for the same reasons that I mentioned, but the margin line pull forward was about $0.20 a share.

And then the margin loan that you're referring to on OneMain, it's not unusual for us to do margin loans on public securities. We've done that going back a long time. It's a way to sort of take some risk off the table. Most of that particular margin line is return of capital. So that itself won't return much carry and it certainly not -- it certainly doesn't cover the impairment shortfall that I referred.

Joshua J. Harris
Co-Founder

Yes. I mean I think it's -- generally, we're -- when we -- when Martin -- in Martin's comments, he said that last year will look similar to this year in our best guess. I mean obviously, it's difficult to predict. But you got -- you should assume that we're at every turn, looking to return capital as quickly as possible to magnify our returns. It's a return management issue relative to our investors and trying to generate the highest returns. Clearly, if you're a private equity investor, you're expecting 20-plus percent returns. If we can borrow at 4% on a safe basis and leverage returns, we're going to do that. And so looking at every opportunity to do that, it's an ongoing and continuous process as a tool in our toolkit. And so I don't know that -- and it's a small part of the overall realization. So I wouldn't be overly fixated on it.

Operator

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

Glenn Paul Schorr
Evercore ISI Institutional Equities, Research Division

Looking for an aggregate update, I think, on the origination platforms, and my thought is from a supply-demand standpoint, meaning what kind of growth are you seeing across things like PK or equipment finance lease, trade finance, mortgage? And are you still seeing those 100 to 300 better spread -- basis point spreads? And do you keep 100% of those originations? Sorry if that's a multiple question in one.

Joshua J. Harris
Co-Founder

Yes. I'm trying to figure out how to take that.

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

We'll count it as one question.

Joshua J. Harris
Co-Founder

I would say that we continue -- yes, so the secret sauce, if you will, of our origination, the direct origination of -- around credit capability continues to grow and be, in essence, the rocket fuel. One of the tools for the outperformance of our insurance platforms and our LPE investors on the credit side, and we continue to make progress and grow. That's a huge focus of the firm.

In terms of private credit and other aircraft leasing, yes, we continue to see the better spreads in -- across all of those businesses relative to a broadly syndicated loan market or the high-yield market, which are very overvalued. And so -- and you continue to see our LPEs and our insurance platforms, in particular, turn -- there's a lot of demand. There's excess demand relative to supply.

So one of the things we say, we're investing a lot of money, $100 million, in keeping our industry-leading EBITDA margin stable. Doing it, part of that is investing in finding people and teams that find origination capability. And we have a lot of discussions out there, and we continue to see that arbitrage.

Leon David Black
Founder, Chairman & CEO

And that is basically part of the firm's strategy of sustaining the largest alternative credit platform basically in the world today. As long as we live in a low-yielding world, there is a thirst for yield among most of our global relationships, and there's also a thirst for spread in our insurance platform relationships. So it behooves us, and we think it is the right strategy in today's environment to keep expanding the credit platform into new originated products and fields. So that is something I think we've been very successful at, and we will kind of double down and triple down in that area.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

So I want to follow up on sort of your brief comments on Athora and maybe dig a little bit more into the environment in Europe. So can you talk about the environment for insurance restructuring in Europe? It seems like there's more press about European bank and financial company restructurings. And it kind of feels like that's an indication of more opportunities for balance sheet repair and maybe more insurance blocks coming out. So how would you characterize the acquisition environment in European insurance today? Or maybe an outlook versus where the environment was, say, a year or 1.5 years ago. Like, is it the same? Is it getting better? Is it getting worse? I can't tell. It feels like it's getting better, but wanted to hear your comments.

Gary W. Parr
Senior Managing Director

It's Gary Parr. You would be right in observing the pressures on the European insurers. Low interest rates continue to create difficulty for the companies. And interestingly, in particular, is their old assets roll off and they put them into new investments. And so it's just an increasing problem as time passes with low interest rates.

The other observation is that Solvency II and the revisions to Solvency II are creating any number of problems for companies with -- particularly with their old blocks of business. And that, of course, is where we spend our time.

So we've seen 2 trends that continue to apply pressure to companies. We're obviously enthused about our presence in multiple countries already. So it gives us the platforms to do the consolidation. And so the bottom line to your question is we see lots of activity in Europe, a number of large companies rearranging, but also interestingly, a lot of midsized companies finally coming under pressure where they just have to find some alternative, some way forward as a strategic move.

Operator

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

Patrick Davitt
Autonomous Research LLP

I think the credit performance fee, I think, came in much better than most people's even elevated expectations. Could you kind of disaggregate that a bit for us? And is there any portion in there that is -- something that we can bet on every year? Or does it kind of reset every January? And finally, does your guidance on flat year-over-year performance fees include or exclude credit performance fees?

Martin Bernard Kelly
CFO, Co-COO & VP

Sure. So it was driven by a number of different funds, most of which are annual payout funds. And so there is no carry in cash terms until you get to the end of the year and you've satisfied the hurdle rate. And so there was a small amount of carry away from that. But by definition, it makes it -- you have to show up in January and then do the same again, right? So we have to earn our way to the preferred return and cross that and drive the payout. So we -- our baseline includes an assumption of credit carry, recognizing that last year was a very strong year and may not be repeated, but we'll see how the year plays out.

Joshua J. Harris
Co-Founder

And it is actually in the numbers, okay? It is actually part of the forecast.

Martin Bernard Kelly
CFO, Co-COO & VP

Yes. And just to be clear, this is -- it's all incentive earnings, right? The comments around FRE that we've made are -- we expect to be in the area of mid-teens FRE growth, balancing expense spend against the revenue as it emerges.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Just maybe coming back to your guidance for realizations. I appreciate the guidance there, thanks for that, around 2020 being similar to 2019. I guess if we're sitting here a year from now and 2020 ultimately turns up actually to be a bit higher than 2019, I guess how are you thinking about the scenario where something like that could emerge? Is it just more transactions, number of deals that kind of pull forward from 2021 potentially into 2020? Just trying to assess there how you're thinking about that possibility, whether it's number of deals. And how would that compare versus what you're expecting over the next couple of years, say, out to 2024?

Joshua J. Harris
Co-Founder

First of all, just to clarify, I mean we don't give guidance, particularly around incentive fee because of the unpredicted sort of what you're talking about, which is it's incredibly unpredictable relative to a quarter-on-quarter or year-on-year annual. We do actually -- obviously calculate what we expect to do based on current market conditions. And we've shared some of that flavor on this call relative to kind of predicting pull forward from '21 or '20. It's all market conditions today. It's very, very hard to do that. We've given you our best guess as to how this -- we thought it's appropriate to sort of share some color on the call, and we've done that. I don't know. And we've shared like long run, how we feel over the life of the cycle, which is that we'll do better than 2x, which is below actually our historical average, which is in the low to mid-2s. So on a conservative basis, we've shared all that. But relative to any sort of more predicting -- more specific predictions, we can't -- we couldn't accurately do that based on how volatile the markets are.

I mean right now, by the way, obviously the markets are high on the debt side. And on the equity side, just for whatever it's worth, while the PE multiples are on -- the median PE multiples are relatively high, it's very bifurcated. So when you look at the top 20% of S&P 500 companies, they trade in the mid- to high 20s on a TEV basis. When you look at the bottom 20%, they trade under 13, 12. And so it's not necessarily the case if the equity markets are hospitable. They're hospitable in certain situations, they're not in others.

I think for us, obviously it presents an interesting -- one of the big opportunities for us is, and we continue to demonstrate it, is buying, and I know this wasn't your question, is buying public companies that are misvalued by public markets, in our opinion. And on the sell side, we're going to take advantage of things that we think are appropriate. It doesn't apply holistically across our portfolio just because things are public.

So the realization environment, even though you would expect it to be great, it's okay and mixed.

Leon David Black
Founder, Chairman & CEO

But again, just underscoring what Martin said, the FRE expectations guidance was again growth of mid-teens and maintaining margins in the mid-50s. But I agree with Josh, that is the nature of PE and that's why the multiple that you've all put on PE is a lot lower than on management fees. Yes, there could be an M&A boom depending on what happens in the election next year. And so you could have an acceleration across the industry. But that's not something we feel is a responsible way of kind of baking in guidance.

Joshua J. Harris
Co-Founder

Color, not guidance.

Leon David Black
Founder, Chairman & CEO

Right, color.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Can you elaborate a little bit on the write-downs that occurred in energy this quarter? And then related to that, given what's happening to this industry, does that change your appetite at all to really invest in energy on a go-forward basis?

Joshua J. Harris
Co-Founder

Sure. Obviously, energy is a pretty small part of our overall assets. It's about 4% across private equity and credit. I'd say that, certainly, the write-downs relate to a very, very poor price environment in energy across both oil and gas and NGLs. And clearly, I'd say that there's been -- and the outflow of capital away from energy due to many factors that I think everyone is aware of. I'd say the write-downs, just to be specific, were contained within the context of PE. In credit, we've done a very good job of having -- not being involved with many situations.

So in terms of investing in energy, the answer is that the bar -- is that we're not running away from investing in energy. We think there's still opportunities. I mean clearly, right now, the market is painting all forms of energy other than renewables, and green-related energy was a pretty broad brush. And there's really no capital available. So I think that you can -- we're not -- we have specific funds that are dedicated to energy investing, and we're going to continue to do that. But like probably anyone who's investing in energy today has to really be buying -- has to be very wary of what exit multiple you apply and really get nearly all your return from the cash flow that energy generates. Because there's just a dearth of capital going into the industry, that creates an opportunity. But on the other hand, one needs to be pretty -- move pretty carefully as they review it.

I mean the other thing I'd say -- the last thing I'd say is that, certainly, energy infrastructure, midstream, I mean a lot of this stuff is being affected and is -- there's a lot -- there's a few diamonds in the rough as you move outside of just the resource itself. The resource itself, just need -- you really need to buy cash flow and really discount terminal value based on everything that's going on in the environment.

Operator

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

Devin Patrick Ryan
JMP Securities LLC, Research Division

Most have been asked, but just wanted to follow up on that last question and maybe just get a little bit broader commentary on deployment expectations in private equity and Fund IX, specifically. And just if you can talk a little bit about the backlog, what you're seeing there, where you're seeing value in the markets. And is it public investments at the moment or is it private? Or just broadly, where is their value at the moment?

Joshua J. Harris
Co-Founder

Yes. So what we're seeing -- I mean as a continuation of what we've been talking about, which is that, yes, the bifurcation in the S&P 500 and the public markets is really affording us the opportunity to buy cash flow cheaply. And so even though the overall indexes are high, we're seeing a relatively significant pipeline of public to privates across multiple industries. And it's companies that no longer are attractive to markets because they're not growing at double-digit rates. Or perhaps they are portfolios of assets that don't make -- that are harder to understand. Or perhaps they've missed a number or 2 and the public markets have grown tired.

But at this point, we're seeing a number of opportunities there. And we're also seeing continued opportunities in financial services. I mean Gary hit on it, but with negative rates existing all over the world other than the U.S., and low rates in the U.S., you're seeing tremendous pressure on financial services companies, banks, insurance companies, other types of financial services companies. And you're seeing the opportunity to -- the asset management capability that we've developed as a result of some of the things that we've talked about with our ability to generate off-the-run yield is tremendously attractive and a value differentiator. And our reputation and our relationships with the regulatory authorities all over the world and our ability to assess liabilities and assets, all these things provide us with an incredible toolbox to attack the financial services business.

And then the last thing I'd say is that we're seeing increasing opportunities in infrastructure and in some of demographic trends around real estate that exists here, particularly in the U.S., in terms of affordable housing or the aging population. And so that's also creating opportunities for us. So the environment -- the investing environment itself is difficult, but there's still stuff to do and that were -- so hence, the $15 billion deployment number on our drawdown funds.

Operator

And our final question will come from the line of Brian Bedell of Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Great. Most of my questions have been answered. Maybe just one more on the management fee outlook in 2020, not just the average rate but the actual growth in management fees. The $22 billion of dry powder that's not yet earning management fees, what are your expectations for that moving into paying AUM? And how should we think about -- aside from future fundraising and inflows, how should we think about the trajectory of that coming into AUM this year and then expanding on that $388 million of management fee base that you have right now?

Martin Bernard Kelly
CFO, Co-COO & VP

Sure. So Brian, about -- a little more than half of that is in the credit segment and the remainder is split between real assets and PE. And in PE, that includes things like hybrid value. And so look, it really depends on the climate for investing. It's hard to predict. We make certain assumptions around deployment. And that's both of that capital and raising new capital that we expect to raise. But I think absent some big opportunity or dislocation in the market, I think we sort of -- we'll continue to deploy at current pace. And you'll see, again absent a big flagship fundraise management fee or a transaction, you'll see management fee growth along the lines of what we've done.

Operator

And that was our final question. I'd like to turn the floor back over to Gary Stein for any additional or closing remarks.

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

Great. Thank you, operator. Thank you all for joining us for the call this morning. If you have any questions, please feel free to reach out to the Investor Relations team. Otherwise, we'll look forward to speaking with you again next quarter.

Operator
Thank you, ladies and gentlemen. This does conclude today's conference call. You may now disconnect.