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PRESENTATION

Operator

Good morning, and welcome to Apollo Global Management's Second Quarter 2018 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 - *Apollo Global Management, LLC - MD, Head of Corporate Communications, Client and Product Solutions*

Great. Thanks, operator. Welcome to our second quarter 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, our Chief Financial Officer.

Also joining me in the room are our Co-Presidents, Jim Zelter and Scott Kleinman as well as Gary Parr, Senior Managing Director. Jim, Scott and Gary will be available during the Q&A portion of today's call.

We'd like to remind you that this call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We'll be discussing certain not 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 our earnings presentation, which is available on the Apollo website. Also, note that nothing on this call constitutes an offer to sell or purchase an interest in any Apollo fund.

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Early this morning, we reported distributable earnings to common and equivalent holders of $0.53 per share, which drove a cash distribution of $0.43 per share for the second quarter. The quarter's distributable earnings were primarily driven by fee-related earnings, or FRE, of $0.45 per share. Lastly, we reported an economic net income of $0.27 per share for the second quarter of 2018.

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

Leon D. Black - *Apollo Global Management, LLC - Founder, Chairman & CEO*

Thanks, Gary, and thank you all for joining us this morning. With our stock being hit this morning, I'm especially looking forward to our Q&A to figure out what you all know that we don't know. But for now we're going to first give our formal presentation, and then we'll get to the Q&A.

The call -- this call provides us with an opportunity to highlight the continued momentum that is driving growth across all of our businesses. To that end, I'd like to provide some commentary regarding our significant asset growth and opportunities we see for continued capital deployment. Josh will then provide with you details regarding the increasing earnings power of our business and our latest thoughts on corporate structure. Martin will conclude our prepared remarks with some brief comments regarding Apollo's financials before we take your questions.

First and foremost, we believe the combination of our strong investment performance, the depth of our relationships with prominent investors worldwide and our expertise in building scalable businesses are the primary catalysts of Apollo's continued asset growth. In addition, we believe we are benefiting from several secular tailwinds in the asset management industry, including: one, the search for yield in a still low-rate environment; two, the consolidation of relationships amongst the most successful asset managers with broad product suites; and three, the migration away from traditional active equity and fixed-income strategies to a more barbelled approach oriented towards its passive and alternative strategies.

We have now reached $270 billion of total assets under management, and our integrated platform is serving us well, as we drive the business forward through our traditional fundraising efforts and strategic capital initiatives. We saw a significant growth in the second quarter, driven by growth inflows of more than $27 billion, including $23 billion in credit and nearly $3 billion in private equity. The strong credit inflows in the quarter were primarily driven by the closing of the previously announced transaction with Voya Financial, which occurred 1 month ahead of plan. As a reminder, we were able to create a win-win-win solution for Apollo, Athene and Voya through the acquisition of Voya's fixed and variable annuity businesses by Athene and Venerable, respectively. This transaction added $18 billion of fixed annuities to Athene's balance sheet and together with several strategic investors, we established a new permanent capital vehicle called Venerable that acquired the variable annuity piece of the transaction.

Athene is our largest permanent-capital vehicle and following the Voya transaction, their balance sheet is approximately $100 billion, a phenomenal success story for a business that did not exist 10 years ago. Through the strength of our strategic relationship with Athene, where we serve as the investment manager for their assets, we have helped them to consistently deliver leading returns within the life insurance industry. The total amount of AUM in all the permanent capital vehicles we manage is nearly $125 billion or approximately 45% of Apollo's total AUM. We believe this is a significant differentiator of our model versus other asset management businesses, since these permanent capital vehicles have a number of attractive characteristics. They're management fee-driven, they're scalable, their market volatility is lower, and they're less dependent on particular economic environments to deploy capital.

As we've discussed previously, we're assisting Athene in replicating its success by establishing Athora as the solutions provider for the European life insurance market. Athora is pursuing accretive acquisitions to grow their business, which, similar to Athene, has the added benefit of growing Apollo's business since we are their strategic asset management partner. Athora's balance sheet will be approximately $15 billion, following the pending Generali Belgium transaction, which will expand their European footprint beyond Germany and Ireland. That transaction is expected to close around year-end, subject to regulatory approvals.

In terms of traditional fundraising activities, we have numerous initiatives in the market today, and others are expected to launch in the coming months. First, the second quarter included a $2.2 billion first close for our new Hybrid Value strategy, a strong indication of investor receptivity to this product offering, which is starting at $3 billion in total commitments by sometime around year-end. As a reminder, Hybrid Value will more formally integrate the expertise of our private equity and illiquid credit investment teams by focusing on capital solutions, structured equity and

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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. In addition to holdings its first close, Hybrid Value also completed its first deal during the second quarter, and we expect the investment period for this strategy will continue for several years.

Secondly, our natural resources franchise is continuing to perform very well, with ANRP II experiencing very strong returns to-date. Since the $3.5 billion fund is more than 75% committed or invested, we recently launched fundraising for a successor fund and would anticipate the first close to occur around year-end.

Third, in credit, our financial credit investments, or FCI fund franchise, is performing well and is continuing to deploy capital with the current vintage, FCI III, already 85% invested. Accordingly, we recently launched fundraising for a successor fund and expect the first close sometime in the second half of this year.

Four, as we mentioned on our prior call, we're also seeing heightened interest for customized, long-dated managed accounts across our credit business as well as the broader platform. These dialogues are occurring with a mix of new investors as well as with current investors that are seeking to expand their existing managed accounts.

Five, and lastly, our flagship evergreen total return strategy continues to see interest and is gaining more traction. This unconstrained credit strategy allows us to navigate the opportunity set across the liquid and performing sector of our integrated platform to help our fund investors in their search for yield. Total return was launched just over 4 years ago, and the performance track record has been strong. Assets for this strategy are now approaching $6 billion from a diverse range of Apollo's clients, including more than 40 different pension accounts, and the pipeline for additional investors remains robust.

Turning to capital deployment. I'd like to focus my comments on private equity where we are transitioning from one flagship fund to another, following the commencement of the investment period for Fund IX during the quarter. I'm pleased to report that we're just about fully deployed in the predecessor, Fund VIII, the $18 billion fund which began investing in late 2013. This includes the incremental capital Fund VIII has committed to invest in connection with a large tech private transaction of LifePoint Health, which was announced last week. Most importantly, despite the high price environment in which we've been operating, we've been able to create Fund VIII at an average enterprise value to adjusted EBITDA multiple of less than 6x in a market where the average private equity deal multiple has been more than 10x. We believe our value-oriented discipline is a key driver behind the fund's solid early returns, which currently has gross and net IRRs of 25% and 17%, respectively. While this fund has been active for almost 5 years, it's still a relatively young fund, with the average life of an investment at just over 2 years versus our historical average hold period of approximately 4 years. As Josh will discuss in more detail, we believe Fund VIII is still building value in its portfolio, which we expect will be monetized over a multiyear period and drive meaningful cash distributions in the process.

Looking ahead, as we seek opportunities to begin deploying Fund IX, the $25 billion fund just activated, we expect to use the same value-oriented approach and multiple transaction pathways that have led to our leading investment returns over the last 28 years. We believe we possess several competitive advantage -- advantages that enable us to source and complete transactions, including: one, a willingness to embrace complexity; two, a proven ability to creatively finance transactions in a variety of market environments; three, the significant scale of Fund IX, which will allow us to commit to larger investments; and four, finally, an expertise in distressed investing, that will be particularly advantageous if we experience market turbulence.

Since founding Apollo nearly 3 decades ago, we have traversed 4 economic cycles, and we have demonstrated, time and again, the ability to successfully navigate the environment at hand. While we do not have a crystal ball to predict the investing landscape over the coming years as we invest Fund IX, we are confident that we have an excellent team and a proven investment process, which we believe will continue to guide our decisions and produce strong returns for our fund investors.

Now I'd like to turn this over to Josh.

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Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Thanks, Leon. I'd like to continue the call by offering some perspective on Apollo's growing earnings power and also, provide a few comments regarding our latest thoughts on corporate structure. The continuing growth of our fee-generating assets that Leon just described, combined with strong investment performance across Apollo's platform, has a direct and positive impact on the trajectory of our cash earnings power and ongoing value creations for our shareholders through both fee-related earnings and distributions from realizations.

Last quarter, I indicated that due to the significant momentum in our strategic capital initiatives, such as Athene, Athora and Venerable and in our various fundraising efforts across the Apollo platform, we are well positioned to continue to grow our management fee revenues and fee-related earnings. I'm pleased to note that as a result of the commencement of Fund IX's investment period at the beginning of the second quarter and the closing of the Voya transaction on June 1, our management fees grew by 20% quarter-over-quarter, and our fee-related earnings, FRE, grew by 40% to $0.45 per share. It's important to recognize that we believe this higher level of quarterly FRE, which annualizes to $1.80 per share, is both sustainable and predictable because of the long-dated nature of the funds and permanent capital vehicles we manage.

In addition, we expect that our FRE will continue to trend higher over time as we grow our fee-generating assets under management across the platform.

As we've said before, we believe FRE is a critical financial metric since it is the foundational component of our quarterly and annual cash distribution, and it is largely based on recurring management fees from the assets we manage. Management fees have comprised approximately 90% of our fee-related revenues historically and have been growing at a compound annual rate of 12% during the last 5 years. The growth in management fees has been augmented by an ongoing focus on efficiency, cost discipline and operating leverage, which has driven margin expansion across the platform and led to a 17% compound annual growth in core fee-related earnings over the same time frame.

In addition to FRE, another important component of Apollo's cash earnings profile is from the distribution of net realized performance fees, otherwise known as cash carry from realization activity. In recent months, we have presented a valuation framework that is available on our website. And in that framework, we illustrate a scenario that generated average annual cash carry of approximately $2.50 per share, based on what we believe are several straightforward assumptions. Looking back over the last 6 years, the average annual net realized performance fee has been approximately $1.50 per share. However, we expect realized performance fees to increase in the coming years, particularly since there's approximately 1/3 more private equity fund capital invested today versus the average level during the previous 6 years. Although the timing of realization event is difficult to predict from quarter-to-quarter, we have a 28-year track record of generating significant cash distributions for investors. Clearly, you can tell from my remarks that we believe continued growth in fee-related earnings and the upside provided by cash performance fees represent a powerful combination of earnings potential. In fact, our view on these earnings streams provides the basis for how we manage the business day-to-day, forecast growth, allocate capital and compensate our talented team of professionals.

Before I hand the call off to Martin, I wanted to address a topic that we know is on many of your minds, which relates to our current views regarding our structure as a publicly traded partnership and a potential conversion to a C corporation. As we noted in our last call and in meetings and conversations with many of you over the last few months, we continue to analyze the pros and the cons of a C corp conversion. On the one hand, there is no question that our current structure is tax efficient, and that conversion would lead to a higher tax cost. On the other hand, we recognize the potential benefit that could be derived from a conversion. Such as, an expansion in valuation multiples, broader investment -- investor ownership and index inclusion. To that end, we are closely monitoring the market's reaction to our peers, which have already been converted. However, it is important to note that each alternative asset manager has a different earnings mix and strategy, so the analysis around conversion varies by company. One of the items we're continuing to monitor very closely is the sustainability of any value creation, since converting to a C corporation is essentially a onetime decision. We do not have a specific time table for deciding, but we remain committed to maximizing long-term shareholder value. As we noted before, we welcome your feedback on this important topic.

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

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Martin Bernard Kelly - *Apollo Global Management, LLC - CFO & Senior Partner*

Thanks, Josh, and good morning, again, everyone. Starting with distributable earnings. The $218 million or $0.53 per share we generated during the second quarter was driven by strong growth and stability of our fee-related earnings, as Josh highlighted. Fee-related earnings of $186 million or $0.45 per share were complemented by realized performance fees and realized investment income, principally generated by monetization activity in Fund VIII and our European principal finance business.

In terms of our economic financial performance of the second quarter, the FRE we generated was partially offset by 2 factors: one, Athene-related depreciation, which amounted to $0.17 per share of unrealized losses; and two, lighter net performance fees due to modest investment performance and elevated profit share expense. The net result of these items drove economic net income of $108 million or $0.27 per share posttax.

Our fee-related earnings were up 40% quarter-over-quarter, reflecting a significant realize -- rise in fee-related revenues, driven by the 20% increase in management fees, which was due to the commencement of Fund IX and the completion of the Voya transaction. Importantly, our ongoing discipline around cost management was particularly evident as fee-related expenses declined slightly quarter-over-quarter. The net impact of rising fee-related revenues and well-managed expenses resulted in meaningful FRE margin expansion of approximately 800 basis points to 53%.

As it relates to the quarterly mark on Athene, the fair value decreased by 7.5% quarter-over-quarter due to the lower trading levels of its stock, partially offset by a modest reduction in the liquidity discount on the shares held on our balance sheet. As I mentioned, the net impact of the decline in value on our economic earnings was an unrealized loss of $0.17 per share for the quarter, which was felt in both credit and private equity segments, given the nature of how we acquired the shares we hold. Despite the depreciation in the quarter, we believe strategic investments like our 10% economic stake in Athene, served to strengthen our balance sheet and further align ourselves with a strategic partner

Next, I'd like to provide some context behind the quarter's net performance fee generation. Total performance fees for the quarter were $141 million or $44 million net of profit share. Notably, each of our business segments delivered positive returns in the second quarter. In credit, on an aggregate basis, the funds we manage generated a blended gross return of 1.3% during the quarter and approximately 7% over the last 12 months. In an environment where low interest rates and negative nominal rates continue to persist, we believe Apollo's credit platform is delivering a compelling and differentiated value proposition to its clients through a diverse product set that spans the risk-and-return spectrum.

In private equity, the portfolio appreciated by 1.7% in the quarter and 16% over the last 12 months. The second quarter mark was driven by 3% appreciation in publicly traded holdings and 1% appreciation in private holdings. Fund VIII, which currently represents approximately 75% of the remaining fair value of all the traditional fee funds we manage, appreciated by 2.1% in the second quarter.

As Leon and Josh noted, the portfolio continues to season, is performing well, and the team is optimistic about the long-term value proposition offered by the nearly 3 dozen companies in Fund VIII.

In real assets, our investment performance, as measured by the U.S. real estate equity business, was up 3.7% during the quarter, and this segment continues to perform well.

Finally, as it relates to the elevated profit share expense, the above-average ratio of nearly 70% during the quarter was principally due to 2 factors: first, a higher incentive for accrual, which can vary quarter-to-quarter as we progress through our calendar year; and second, higher equity-based profit share arising from certain grants, which will continue to amortize at seminal levels for the remainder of the year before stepping down in 2019 and again, in 2020.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

For me, first question. If I look at the growth in the business, that's been, obviously, robust across the different segments. But if I look at the performance this quarter, last quarter, it's been a bit more muted. The longer term, you guys mentioned Fund VIII with the 25% IRR. So it seems like things are still progressing very well. But just wanted to get your sense, that when you look at the first half of the year, what has been driving, maybe, some of the weaker performance metrics? And then when you think about the portfolio seasoning going forward, what's the outlook? And especially, when we start thinking about the distributions heading into '19 and '20, and realizing that the performance fees, how confident are you that you can -- you're going to generate the same that you have seen historically?

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Right. So just to clarify, because the management company, DNI, and the metric there are actually quite positive. So I think what you're really talking about is the private equity portfolio of the company performance in one particular quarter. And I guess, my view, and I'm going to turn it over to Scott Kleinman, who runs private equity to provide some details, is that, there's always idiosyncratic marks in any one quarter, but we feel highly, highly confident that Fund VIII is continuing to build value and going to deliver. In fact, over the last 12 months, obviously, it's 25% gross, 17% net. So the notion that we've had -- we had a couple of things related to retail and Canadian natural gas that we had to mark down. But like, relative to the overall portfolio, we're very positive and excited about where it is. And our track record over the last 28 years, we have no reason to believe we're not going to continue to do what we've done over the last 28 years, which is generate high 30s gross and high 20s net. But Scott, do you want to talk more specifically about the (inaudible)?

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Yes, sure. So look, as Leon mentioned earlier, the fund is still fairly young, with an average age of only about 2 years for the investments in it. Fund's off to an extremely strong start. If you remember, our performance last year was about 30% appreciation. We've seen a little slowdown, as Josh alluded to. A little bit of noise in the couple of names. But otherwise, the portfolio is in extremely strong shape. We would expect to see more normalized depreciation going forward from here. And as far as your question when -- around monetization, no, the portfolio is shaping up. I mean, we see '19 and then again, into '20 as being pretty strong realization years as that fund really seasons and gets ready for realization. So feel really confident about the portfolio. But as you all know, private equity marks don't move linearly. And so we -- after an extremely robust '17, we've seen a little slowing in the first half this year but feel extremely confident about the portfolio as a whole.

Operator

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

William R. Katz - *Citigroup Inc, Research Division - MD*

So (inaudible) you've had a, sort of, a lead on building now the opportunity set into the insurance segment. And subsequent to what you've done, you've had a couple of your competitors, both Blackstone and recently, Carlyle stepping into the space as well. It seems like each of the companies has a bit of a different strategy. But we should talk more broadly about the competitive backdrop for related assets, and how you, sort of, see the growth from here? I think you spent a lot of time in your prepared remarks about that. So where could we see some of that incremental opportunity? And is there any sort of risk to that thesis, just given the bit of a crowding by some of your peers?

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Gary W. Parr - *Apollo Global Management, LLC - Senior MD*

So it's Gary Parr speaking. And you made a good point, and that is a lot of different approaches from others, including ours. And it's useful to go back. We saw the opportunity -- Apollo saw the opportunity in the insurance industry 9 years ago as to the repositioning and the restructuring that we've taken place and through that, began to build Athene. Over that time frame, we've then done the strategic capital initiatives to also build out Athora, Venerable, we have Catalina that we're invested in that does property casualty. And then as Leon addressed, we have SEI, which does life settlement and structured settlements. So firstly, to your point that we have a platform that gives us the ability to provide solutions across a lot of different segments of the insurance industry, that gives us a lot of optimism about what we can do and where we can do things that are win-wins for ourselves, for our partners. The second part would be, interestingly, with others coming in, if anything, we've seen the opportunity set grow over the last 5 years. The pressures on margins and annuities, the difficulties in Europe by country and consolidation have actually opened up more opportunities than was the case 5 years ago in terms of numbers. So we can see it and say that no one group, ourselves or anybody else, would ever do all transactions in any sector. We've known that. We continue, obviously, to get things done with the Generali and the Aegon in Europe and the Voya transaction in the U.S. And we continue, lastly, to be in a number of conversations that are complex. They suit our abilities in terms of our expertise. And there a number lines where we can apply those skills. So we -- I think others in our peer group have also referenced the size of the opportunity, and there, we agree. We see a lot more than any one group could do.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes, I mean, I would just say, like, obviously, Athene chugs along at $10 billion of AUM a year in terms of its growth plus or minus. And you can look at those numbers yourself. Athora is now in Europe, right? We're off to about $15 billion of AUM, as Gary mentioned. But our capital base would indicate capital that would allow us to get to $50 billion there. And then, now you have Catalina, which is a PNC-related insurance business. And look, at the end of the day, we're also innovating across other lines of insurance. And as people come into the easier, less-complicated stages, we're doing what we do, which is, we're looking at things that are a bit more complicated. For example, in Voya, obviously, we split the fixed annuities and created a company to acquire the variable annuities. And so it allowed us to do a transaction that other people couldn't. But there's a lot of growth left to go, and those would be some of the near-term areas.

Operator

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

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Josh, you've spoken about the importance of FRE, and obviously, the progress you guys made here. And you, obviously, saw the step-up in the second quarter through various initiatives. Can you talk a little bit about the prospects of FRE growth from here, but really more on an organic basis, kind of, assuming that the Voya type of deals, if we see more of those, obviously, that's great, but from an organic opportunity, what do you guys see as the biggest drivers for Apollo over the next 12 months? And as a, kind of, second question to that on Hybrid Value, maybe you guys can hit on the opportunity to potentially upsize the fund, kind of, given the strong first close you had.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. I'll take the first one, and then I'll take the second one over to Scott. But if you look at FRE growth over the last 5 years, right? We've grown revenues at 12% and FRE at 17%. And I think that -- and we've achieved a lot of -- we've achieved -- so the management company growth is being driven by, obviously, the step-up in IX, but also really significant growth in credit. In that growth is continuing in credit. I mean, last year, we -- part of it is acquisition. But without acquisitions, we're sort of adding $20 billion to $25 billion of AUM every year just organically across our platform. And so -- and then, I'd say, on the margins, right? There's still going to be operating leverage in those business. I mean, obviously, we're cognitive at a 53% EBITDA margin. We've made a tremendous stride, and we could still make strides. But it'll be increasingly incremental in terms of margin

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improvement as we reinvest in some of the business. Before Scott comments, Jim, you want to comment on the credit growth? Because that's the primary driver.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Sure. So as -- some of these things were already mentioned. But TRF was a concept 4 years ago. That strategy collectively now is over $6 billion. That's a management fee business, which, as we think about our business and organically grow, that drops right to the bottom line because of how we're structured and the ability for that to be an incremental FRE contributor. Certainly, the activities we're doing in the FCI franchise, what Gary mentioned in terms of expanding our insurance capabilities, our structure of credit franchise, SCRF IV, off to a great start. We've announced closings of over $2 billion in that franchise, hitting on EPS. So those are all critical drivers to our FRE margins.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Great. And just to answer the Hybrid Value question. No, you're right. We've been, I think, very pleased with the amount of investor interest in that product. We -- as we mentioned, we had a first close of $2.2 billion. We're targeting $3 billion. I think we have investor demand in access of that. But I think rightly with our fund here, we wanted to grow this business sensibly. This is -- based on the demand we see for the actual underlying product, our pipeline is fantastic in Hybrid Value right now. As Leon mentioned, we already had our first deal close. We expect to have a few more announced in the coming weeks. And so this is a great product we see the -- sort of, medium-term growth here, pretty extraordinary, and so would expect in coming quarters and years to continue to grow this platform pretty meaningfully. But for the time being, we are targeting that -- around that $3 billion mark.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

I mean, bottom line is, we don't -- there's no reason why we can't continue to grow revenues at double-digit and FRE in the mid-teens. And that's without any big acquisitions. Like, if you have another Voya and the R&D lab is always chugging here, or another something else that we start, that would be additive to that.

Operator

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

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

So question here just on some of the headlines around the departure of the head of the real asset segment. It's a smaller area for you guys. But just would be great to get an update on what you're thinking there, strategically, just given that I know that it was an area that -- I think there was some building enthusiasm around the potential. And just, what areas of growth you're focused on, and any additional expectations for where the segment could go.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Yes, sure. So real assets and infrastructure is a space that we, since Jim and I have taken on the Co-Presidents' role, it is a space that we're looking to really get reorganized and really use as a platform to continue growth. We are in the process of reorganizing that business, and we'll be coming out with more specifics in the coming quarters there. But as far as how that goes, no, we would fully expect to continue to not only be putting additional focus into the traditional real estate platforms that we have, but we are still looking at infrastructure as an interesting platform to grow, and we're really just finding the right way to get that launched.

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Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. But I would say that right now, infrastructure investing is across our platform. And the real distinction that we've made is that we haven't yet decided to raise a carve-out fund, based on the competitive nature of the field. And so that's just probably the difference. And so that would be the only clarification I would make. But I would say that we have a debt infrastructure team, we have an equity infrastructure team, we've got funds that it's going into. And we may very well decide to do that. But we haven't yet.

Operator

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

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Just a question regarding the C corp conversion opportunity. You mentioned you want to evaluate the sustainability of any success that your peers may or may not be having there. Can you help us maybe determine how you guys are thinking about that exactly? I mean, how do you really know whether something is sustainable or not, I guess, is my question. And just on the surface, it seems like it might take a while to evaluate that. But maybe that's not right.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Well, I think, you're right. I mean, the reality is, when you -- obviously, we've watched the actions at KKR and Aries and certainly, in the case of KKR, are more pronounced. We've seen that it's -- that, amongst a lot of other things, has had an impact on the multiple in our view. But at the end of the day, one quarter is one quarter, and once you make this decision, you're permanently destroying cash earnings. And we put out some numbers there last year as to what that would be, so I think that from our point of view, it's not something that you rush, that you've got to see how things trend over a cycle, how people trade, whether there is broad -- and then I think you can also chart like different investors and who owns which stocks, and you can look at index inclusion over time, and whether things are really included in indexes, or whether they're not. And so all these things are researchable and available. But once you make the decision to do it, it's a permanent decision basically. So you want to measure it twice and cut once and just -- and so we're following all of these and things studying it in great detail.

Operator

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

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

I want to circle back on the platform you guys have been building out, Athora, MidCap, Venerable and so forth and if you could just talk a little bit about more strategically, how you're thinking about the next set of platforms that Apollo could drive a next wave of management fee, revenue growth, say, over the next 5 to 10 years? What areas of the market are you seeing dislocations or opportunities for introducing new and other platforms?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Well, Michael, this is Jim. As you said, we -- let's talk -- let's differentiate those 2 patterns. Some of them are really the entity that holds the assets, like Athene, Athora, Catalina, Venerable, et cetera. And then those are the insurance assets such as the permanent capital vehicle. And then the platforms underneath are things like MidCap, Amerihome, a variety of our aircraft activities and mercs. So when we think about those, they somewhat go hand-in-hand. Certainly, Gary articulated the opportunity on the platform side in terms of what's going on with the insurance sector as a whole,

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the multitrillions that are being evaluated in terms of disposals. So we have a very concrete effort going on there on the platform side. On the asset side, as we've talked about in the past, certainly, continuing to garner spots in the capital markets where we think banks are not reentering, staying the regulatory environment. So as we think about the SME lending, as we think about inventory finance, as we think about trade finance, as we think about EM direct lending, a variety of activities that are consistent with what we've done historically in credit, where we are taking the role of what had been the role of the incumbent bank that -- those are exciting areas for us. So we purchased a small SME lender in the U.K last 12 to 18 months. That is one that has a small platform right now but a great track record. So a variety of those activities focused mostly in the U.S. and Europe, but you will see a couple of small activities for us in other regions of the globe. So that's really the theme. The one big area is aircraft. I mean, we're excited about what's going on right now. We have a tremendous track record over the last 5 years in our entity called mercs. We certainly see a lot of activity, you have some competitors who've come in. But the ability to expand that area is critical to us as well. So those are the breadth of things that we're thinking about. And Scott also mentioned at the end infrastructure, debt and equity, I think, you'll see us doing and pursuing activities in that space as well that would be a platform-like.

Operator

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

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Circling back for a moment, or I guess, maybe digging in a little bit on the permanent capital vehicle platform. There's been, clearly, a lot of press around the demand for private debt. Perhaps, you could share a few thoughts on how you see the opportunity for MidCap and maybe even more importantly, how or if some of the -- maybe what some of the risks that might be on the horizon for credit? Should we see a turn in the cycle? That's going to be helpful.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Sure. So just a reminder for those. MidCap is a vehicle that we entered our ownership about 4 years ago, when we did 5 years ago. And we did. The company had a balance sheet for $1.5 billion. Today, that balance sheet directly is around $8.25 billion, with off-balance sheet side cars and other vehicles of around another $2 billion or $3 billion. So almost $10 billion. When we purchased that business, it was really a health care lender, focused on really ABLs, health care real estate and sponsored debt in the health care space. The evolution that now we have a breadth of businesses, ABLs, revolvers, life sciences, real estate and general sponsor business in a variety of industries. Health care is about 40% of the portfolio right now, so general industrial is about 60%. So a very, very wide platform, almost -- we've only purchased it 50 employees and almost 200 today. Your question about private debt. Private debt is a word where it's anywhere from senior secured sponsor of $350 million over to mezzanine, attaching at 7 to 8x. Certainly, we're pretty confident. We have a view that are on private debt, it's all about the size of your front-end funnel. We focused tremendously on having a lot of folks knocking on doors because it's a business of large numbers. And so what we're excited and very happy and that platform, historically, has had to fall to less than 20 basis points, and we feel very good about the portfolio today. Broadly speaking though, private debt, there's going to be -- as a lot of capital has been raised, certainly, we're bit more cautious on subordinated debt in some of the newer vehicles that the -- if you're just a vintage '18 or vintage '17 on subordinated debt, that's a call to concern. And I would tell you, in our permanent capital vehicles in our insurance companies, while we have done things that are unrated, we have maintained our focus on senior and secured and floating. So we've been very cautious about the type of private debt that we put into our capital and our permanent insurance vehicles, but we're excited about what we see going on at MidCap.

Operator

(Operator Instructions) Our next question comes from Brent Dilts of UBS.

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Brent Ryan Dilts - *UBS Investment Bank, Research Division - Equity Research Analyst of Large cap banks and brokers, asset managers and trust banks*

Bit of a higher-level question. Could you talk about how the spread trade wars impact, both how you deploy capital and if it's impacting, the way you're thinking about harvesting some of the gains you're sitting on?

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. I mean, I'll start. It hasn't really -- we haven't seen a significant impact in our portfolio. And when you look at the overall numbers, first of all, just for the U.S. economy in general, but then as it relates to our portfolio, it's just not significant at this point, relative to an impact that's material. But obviously, like if it drives the markets down, it creates volatility, it'll impact both our -- it'll help our ability to buy. And there's certainly going to be sectors that are obvious, that impacted by that us. Anytime there's dislocation, that's super helpful on the buy side, clearly. On the sell side, if the broad -- if broad market confidence is affected and volatility is created, that'll limit our ability to sell or delay our ability to sell. But that would be my overview of it. Scott, I don't know if you have anything more specific.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

No, I think you (inaudible) it well.

Operator

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

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Martin, just 2 quick things. So the FRE margin, that you mentioned, 53%. Just how should how be thinking about that as you continue to grow, whether it's insurance business, the credit business and then you -- you're investing in the business, just how should we think about maybe over the next few years? And then real quick. You mentioned like the incentive comp. I know, popped up on -- sometimes it can happen on mix and accruals, but I just want to make sure I understood it more in terms of the outlook, like what we should be thinking about that, whether it's the rest of the year, this year, into '19 and '20?

Martin Bernard Kelly - *Apollo Global Management, LLC - CFO & Senior Partner*

Sure, Mike. So on the margins. So we hit 53% on an FRE basis. We -- we're, obviously very happy with that. And looking forward, we would expect that we'd be sustainably above 50%. And so I think, as Josh said, I think there's room for that to grow over time, probably not so much in a stairstep fashion as we've just experienced. But we have to balance that with investments in the platform. And so that's -- we'll make those decisions year-by-year as they come along. And on the profit share, it's -- sort of the ratio is exacerbated in a period when there's a lot of levels of carry in dollar terms. So looking at realized profit share, the rate was 58% as we reported it. But if you deduct the incentive pool in a low-carry quarter, it came down to low 40s. And then the second component, which I mentioned in my prepared remarks, is a noncash charge related to some executive awards which we'll take it off over time. So looking forward, we -- when you sort of -- when you look through the cycle on a more normalized period of time, we'd still expect the blended, sort of, aggregate profit share rates to be in the 40s, sort of mid-40% level.

Operator

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

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Kaimon Chung - *Evercore ISI Institutional Equities, Research Division - MD & Senior Research Associate*

This is Kaimon Chung in for Glenn Schorr. So more money moves from the nonsupervised to the supervised. But the ratios have stayed roughly the same over the last couple of years. Is there a limit to how much can be supervised? And do you have any updated thoughts on where that number could go and how high the ratio could go?

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Yes. So we've talked a lot about this in the past. The number is generally in the low 20s today, and it goes up and down. Certainly, our alignment with Athena is such that they would like to have that number approaching the 30% number. So we're collectively aligned now. I think that the numbers today reflect the opportunity set. And certainly, with their compression of yields and the compression of returns, we're being judicious with the capital that's deployed, but certainly, a very active, aligned dialogue about increasing that sub-advised number. And certainly, that's good for Apollo and it's good for Athene. But it's done with a right prudence around it to make sure that it's judiciously. But our goal would be to get that number substantially higher -- mid- to high 20s, if not 30%, over the next several years.

Operator

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

Gary M. Stein - *Apollo Global Management, LLC - MD, Head of Corporate Communications, Client and Product Solutions*

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

Operator

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

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