Q2 2020 Earnings Call

Company Participants

- Gary Stein, Head of Investor Relations
- Gary W. Parr, Senior Managing Director
- Josh Harris, Co-Founder
- Leon Black, Founder, Chairman and Chief Executive Officer
- Martin Kelly, Chief Financial Officer, Co-Chief Operating Officer

Other Participants

- Adam Beatty, Analyst
- Alex Blostein, Analyst
- Bill Katz, Analyst
- Chris Harris, Analyst
- Christoph Kotowski, Analyst
- Craig Siegenthaler, Analyst
- Devin Ryan, Analyst
- Gerry O'Hara, Analyst
- Glenn Schorr, Analyst
- Jeremy Campbell, Analyst
- Ken Worthington, Analyst
- Michael Cyprys, Analyst
- Patrick Davitt, Analyst
- Robert Lee, Analyst

Presentation

Operator

Good morning and welcome to Apollo Global Management Second Quarter 2020 Earnings Conference Call. During today's presentation, all speakers will be placed -- all callers will be placed in a listen-only mode and following management's prepared remarks, the conference call will be opened for questions. 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, including the 8-K Apollo filed this morning 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 any interest in Apollo fund.

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

Gary Stein {BIO 1911026 <GO>}

Welcome to our second quarter 2020 earnings call. We hope you and your families are doing well in these challenging times. Joining me this morning are Leon Black, Founder, Chairman and Chief Executive Officer; Josh Harris, Co-Founder; and Martin Kelly, Chief Financial Officer and Co-Chief Operating Officer. Gary Parr, Senior Managing Director, is also on the line and will be available during the Q&A session.

Earlier this morning, we reported distributable earnings of $0.46 per common share, pretax fee-related earnings or FRE of $0.59 per share and a cash dividend of $0.49 per share for the second quarter.

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

Leon Black {BIO 1444117 <GO>}

Thanks, Gary, and thank you all for joining us. I'd like to express my wishes to everyone listening that this finds you and your families healthy and safe. And to our employees who have continued to work tirelessly on behalf of our clients and our shareholders, I'd like to convey my appreciation and gratitude. We are not working under typical circumstances to say the least, and you have all continued to go above and beyond to drive the strong results that we are reporting today. I think this speaks to the tenacity and spirit of our employees as well as the collaborative and inventive culture we have at Apollo.

Globally, companies continue to operate in incredibly challenging circumstances as we face what started as a health crisis, but has progressed into an economic crisis as well. Across the firm, we have responded quickly to this changing landscape with a focus on engagement and operations across our investment professionals, client and product solutions team and enterprise solutions group, which has helped us transition into a work-from-home environment smoothly.

This quarter marks the achievement of a significant milestone as Apollo's AUM grew by approximately $100 billion to surpass $400 billion for the first time in our history. This growth was driven by Athene, Athora and strong inflows during the quarter and represents 33% growth year-over-year. With $414 billion of AUM as of June 30th, we are well on our way towards the $600 billion goal that we provided at Investor Day this past November. We continue to see robust demand for Apollo products and a strong pipeline for insurance transactions over the next few years.

As a further indication of the breadth of our platform and our activity level through the pandemic, gross purchases were $45 billion across the platform in the second quarter, with some of this related to the repositioning of insurance company balance sheets. We continue to dynamically navigate through this challenging environment on behalf of all our investors.

Now I would like to spend some time talking about the remarkable depth of leadership that resides at Apollo and continues to evolve. Since our founding, we have intensely focused on the strategic growth and evolution of Apollo as a leading world-class alternative investment manager. In recent years, we've broadened the firm's executive team, most notably by naming Scott Kleinman and Jim Zelter as Co-presidents. Scott and Jim have shown strong corporate leadership, taking on responsibility for Apollo's revenue-generating and investment businesses.

Additionally, we continue to elevate and hire exemplary individuals to run the day-to-day operations across all lines of our business, including credit, private equity and real assets and our insurance platforms. Our recent hires and the evolution of our leadership structure demonstrate our commitment towards growth, progression and the ongoing modernization of our firm. Today, we are announcing that on the back of an almost unprecedented quarter, adding $80 billion of insurance assets and liabilities to the portfolios that we manage, Marc Rowan, co-Founder who oversees this area, has decided, he will take a step back from his day-to-day oversight of the business and enjoy a semi-sabbatical. Marc will continue to work with Josh and I, driving the strategic direction of the firm especially for our financial institutions and insurance-related businesses. Marc will remain a member of the Apollo Board and Executive Committee, will continue to serve on the Board and Executive Committee of Athene and will remain on the Board of Athora.

Scott Kleinman will assume the day-to-day operational responsibility of leading our financial institutions and insurance activities. Jim Zelter will continue to focus on asset management and credit investment activities across our insurance clients. Together, with Gary Parr, Gernot Lohr, Matt Michelini and Jasjit Singh they will lead a broad team of over 100 professionals who are dedicated to our insurance clients. Josh, Marc and I maintain the utmost confidence in this team to lead us into the next phase of growth and development for these platforms and for the firm more broadly. We are excited for what the future holds.

We are also actively engaging on the topics of citizenship, diversity and inclusion. We recently completed our latest Annual Social Responsibility Report, which highlights that since the inception of our ESG program in 2008, the combined efforts have resulted in more than 10 million tons of waste recycled by portfolio companies, over 1 million volunteer hours by employees of portfolio companies and approximately $1 billion of charitable donations, just to name a few achievements. We have brought on some exceptional talent to assist with our citizenship efforts, including Lauren Coape-Arnold, who joined late last year as Global Head of Citizenship.

This year, we introduced a formal charitable matching program for employees, which included special initiatives for COVID with $50 million in relief effort contributions globally from Apollo, its founders and portfolio companies and also for racial injustice reform. These initiatives were well supported by our employee base. More recently, as tragic events have further brought the issue of systemic racial injustice in this country to the forefront, we've been spending a great deal of time listening and thinking about how we can engage to a greater degree on this issue. As leaders in the industry, we need to be honest in acknowledging that we can do more to help combat these inequities, and we are committed to enhancing our diversity and inclusion strategy in all aspects of our business.

We are very excited to welcome our new Head of Leadership Development and Diversity, Jonathan Simon, who joins us next month. In addition, we have expanded our existing partnerships with organizations that work with students of color and communities in need.

Finally, before turning this over to Josh, who will speak more extensively on the subject, you should know that I am particularly proud of the strong performance delivered by the Apollo team in the second quarter. During challenging times, Apollo has generated dramatic growth in both AUM and FRE, in fundraising and in deployment as well as raising the bar on social consciousness. This has truly been a prime example of grace under pressure or of the whole Apollo enterprise getting going when the going was getting to get tougher.

With that, I'd like to turn this over now to Josh to provide an overview of our business operations for the first [ph] quarter. Josh?

Josh Harris {BIO 1444168 <GO>}

Thanks, Leon. We are really pleased to further evolve our leadership team, and I look forward to continuing to drive growth for Apollo alongside you and Marc. Apollo has responded, as Leon mentioned, to the challenges of working through the global pandemic exceptionally well. Our utmost priority during this time has been to focus on the health and safety of our people and their families, which include our 15 offices around the world. We have challenged ourselves to innovate and adapt new technologies and to make this work -- a remote work environment as efficient as possible. Looking forward, we are approaching the return to office with an emphasis on ensuring the ongoing well-being and productivity of our employees.

Now turning to our results. Our business has done exceptionally well over the last six months. For many years, we've been making four key points about how our business would perform during a period of severe market dislocation or a recession: number one, our FRE growth and margins would be durable and stable; two, our fundraising would be resilient and potentially accelerate, driving AUM growth; three, we would find attractive risk-reward investment opportunities for our investors; and four, the majority of our markdowns in our funds portfolios would be transient. All of these are proving out during this period of time, reflecting the strengths of our platform.

I'd like to briefly highlight the two notable transactions that reflect our continued market leadership in serving our insurance clients. These transactions closed during the second quarter despite a backdrop of continued market volatility and uncertainty. At the beginning of the second quarter, Athora closed on its acquisition of VIVAT. Athora's assets now stand at $60 billion. This transaction is transformative for Athora as it creates meaningful scale, diversifies Athora's business further geographically and adds a significant -- and adds significant operational talent and distribution capability to the Athora platform in the Netherlands.

In addition, in June, Athene announced and closed its reinsurance transaction with Jackson National, which is the largest reinsurance transaction in recent history. Through these transactions, Athene and Athora have added $73 billion of assets, and we believe that substantial consolidation opportunities remain across the insurance industry. Following these two transactions, our insurance clients continue to have a strong capital position with over $85 billion of buying power in aggregate. This capital serves as a key strategic differentiator for our clients as they do unique asset management transaction and origination capabilities of more than 150 employees at Apollo focused on serving them.

Apollo's permanent capital vehicles now represent 60% or approximately $250 billion of our AUM, and over 90% of our AUM is either derived from permanent capital vehicles or has a contractual life of five years or more from inception. This stable base of AUM continues to underpin our durable and growing fee-related earnings, which we have successfully grown through all market environments and expect to continue to do so. For the first half of 2020, our FRE grew at 9% compared to the first half of 2019 despite multiple periods of market dislocation and the impact of an ongoing global health and economic crisis. We continue to remain highly committed to growing FRE at a robust pace over the long run and remain very confident in our ability to achieve the goals we set for our long-term FRE growth at our Investor Day last November. Our FRE margin was 55% for the first half of 2020, in line with our 2019 FRE margin.

Turning to fundraising. Total inflows during the second quarter were a robust $89 billion, inclusive of Athene and Athora growth. Over the last 12 months, total inflows have been $119 billion, a record for Apollo. This includes $73 billion of growth of insurance client mergers and acquisitions, $35 billion of capital raising and other inflows from our fund investors and $11 billion from organic growth at our insurance clients. In the second quarter, the breadth of our platform's investment capabilities and strength of our global relationships with investors drove fundraising that was significantly above our average quarterly level. Notably, this momentum was achieved during a time of nearly all virtual interaction.

During the quarter, we announced and closed on [$17.4 billion] in fund commitments. Key initiatives include the launch of Apollo's strategic origination partners platform, which will target an emerging opportunity in large-scale direct origination solutions for high-quality businesses, a market currently underserved by private credit. The origination partnership will leverage Apollo's incumbency with borrowers, utilizing our credit platform's relationships with approximately 3,300 issuers of both corporate and sponsor-backed companies.

Also contributing to inflows was a $1.75 billion close for our Accord III B. This is our dislocation strategy that we were able to launch and close within approximately eight weeks, and we are now in the market for the next series of the Accord strategies. Looking forward, we remain confident that we will be able to meet or exceed the $20 billion fundraising goal we discussed on our last earnings call, which consisted of increasing the target size for certain funds, accelerating the time line for other fundraisers, launching new strategies to address opportunities driven by market dislocation.

We are appreciative of the trust and support from both existing and new investors as they commit to a range of strategies currently available on our platform, including our origination strategy, Accord, Hybrid Value, infrastructure, US and Asia real estate, managed accounts and various evergreen strategies.

During the second quarter, turning to deployment, we deployed $7.2 billion of capital across our drawdown funds. Through a shifting market landscape, we remain active looking for attractive asymmetric risk-reward and investing in high-quality, top of the capital structure opportunities. As public markets have recovered, driven by massive but necessary, federal stimulus, instead of fundamentals, it's been more challenging to find these attractive risk-reward opportunities. However, we have been able to successfully navigate these markets to date and are increasingly focused on providing bespoke capital solutions for brand-name franchises facing liquidity constraints or looking to capitalize on growth opportunities.

Capital deployment for the quarter included originations led by our Hybrid Value and credit businesses for companies such as Expedia, Albertsons, Airbnb, MFA, Cimpress, NGL Energy and Delta. As of the second quarter, Hybrid Value stood at 71% committed or invested and we are back in the market for this strategy. These transactions highlight the benefits of our globally integrated platform and the deep pools of capital across our clients, which allow us to structure bespoke financing solutions quickly and with certainty of execution. Going forward, we believe these factors will continue to make Apollo a premier financing partner for companies as we see -- and we see a strong pipeline ahead for hybrid value, our various credit vehicles and our new strategic origination partnership.

In addition, our private equity fund, Fund IX, recently closed on the $6 billion take-private transactions for Tech Data, representing the largest public to private transaction completed this year. Tech Data is a global leader in information technology distribution, which we believe is well positioned to continue to benefit from the secular IT spending tailwinds. And we created this investment in an attractive creation multiple of approximately 7 times EBITDA prior to cost savings. As of the end of the second quarter, Fund IX has reached 40% committed or invested.

Looking ahead, we remain of the view that technicals are well ahead of fundamentals, and therefore, we are prepared for continued volatility and a wide range of outcomes over the coming quarters. Apollo's leading investment returns through cycles are reflective of both our focus on preserving capital for investors -- preserving capital for our investors and our ability to pivot quickly and opportunistically to invest during fleeting market dislocations. Our private equity and credit pipelines are robust, and we believe there will be many opportunities for us to identify and capture mispriced risk on behalf of our investors in the months and quarters to come.

Finally, as we have discussed in recent quarters, we remain focused on increasing the accessibility and liquidity profile of our stock. As a result of the changes made to date, we are now included in the CRISP, S&P, Total Market, MSCI and Russell indices. To our existing shareholders, we are grateful that you have been along for the ride and to our prospective new shareholders, we look forward to engaging with you.

To conclude my comments, our strong results for the second quarter and first half of this year are a testament to the strength of Apollo's global integrated platform and resiliency of our team. Against a very challenging market backdrop, we have demonstrated the durability of our growing FRE and the stability of our margins. Through severe market dislocation, our funds invested meaningfully during a short window of very attractive risk-reward opportunities, creating what we believe will be a substantial value for our investors.

We also demonstrate our ability to pivot quickly in reaction to shifting market landscapes and are now increasingly focused on providing capital solutions for franchise businesses, and we see a growing pipeline of private equity. We've grown our AUM at a substantial pace over last year and continue to see strong demand for our products, putting us on pace to achieve or exceed communicated goals of raising over $20 billion of new capital over the next year and being well on our way to surpassing $600 billion of AUM.

(Technical Difficulty)

Martin Kelly {BIO 15261625 <GO>}

Operator?

Operator

It looks like the line has dropped off, he has to reconnect.

Martin Kelly {BIO 15261625 <GO>}

I'll finish that -- he's at the tail end. I'll finish his comments and then go into mine. So being well on the way to surpassing $600 billion of AUM over a 5-year period and growing our FRE at a mid-teens average annual rate, as we outlined in last November's Investor Day. To help achieve these goals, we continue to invest meaningfully across the platform, building out our investment talent and infrastructure.

So it's Martin. I'll pick up on the comments. I'd firstly like to echo Josh's appreciation for all our employees, whose hard work has resulted in a seamless transition into our current remote working environment.

So on dividend, FRE and DE for the second quarter, we announced a dividend of $0.49 per share, supported by our after-tax FRE. Our reliable FRE stream supports a dividend at a level above our stated minimum of $0.40 per quarter. And in quarters of more meaningful transaction fees, the dividend can be substantially higher even without the benefit of performance fees. We generated FRE of $0.59 per share on a pretax basis for the quarter, driven by growth in management fees and some higher transaction fees.

Transaction and advisory fees were $62 million in the quarter, driven by transactions, including Tech Data as well as Albertsons and other capital solutions transactions. The increase in compensation costs reflects continued investment in building out our capabilities across the areas of growth that Josh highlighted, including in infrastructure, our hybrid capital business and our FIG platform as well as in technology and various support functions across the firm.

Turning to incentive realizations. We had a very low level of gross realized performance fees in the quarter, which drove negative pretax incentive earnings for the quarter after accounting for the profit share interest in realized carry and financing costs associated with our debt and preferred securities. As a result, our dividend of $0.49 per share for the quarter was fully supported by our after-tax FRE.

On AUM, as Leon and Josh both referenced, we saw growth of $98 billion in AUM as a result of the strategic growth at Athene and Athora as well as strong fundraising, organic growth at Athene and positive mark-to-market adjustments. For the second quarter, fee-generating AUM grew by 36% or $88 billion to $330 billion, supported by those same factors as well as robust capital deployment. Gross redemptions in the first half of the year were just $1.2 billion or well less than 1% of our AUM through a period of significant volatility, reflecting the largely long-dated nature of our funds capital.

Moving on to investment performance during the second quarter. Our private equity funds portfolio appreciated by 12%, primarily due to strong performance across our fund's public holdings. The portfolio remains in good shape overall despite the challenging economic environment. Fund VIII is now out of clawback, having appreciated by 17% during the quarter. We invested Fund VIII with an emphasis on durable business models and strong free cash flow and with a focus on purchase price. Fund VIII portfolio companies were bought at a 6.5 times enterprise value to EBITDA multiple on average, excluding cost savings, with only 3.6 times of leverage on average, well below industry levels.

Given our value orientation and the high quality of our fund's portfolio companies, we remain confident in our platform's ability to generate meaningful realized returns over time. We recorded impairment charges of approximately $1 billion during the second quarter across a handful of investments that we had previously identified on our watch list. These investments were focused on energy or were heavily impacted by COVID. We are required to recoup these impairments before future performance fees may be distributed.

We continue to expect that gross realized performance fees will be very modest over the course of 2020 as portfolio companies manage the impacts of COVID on their operations and as we prioritize the return of LP capital as a consequence of the impairments.

In credit, our fund's aggregate portfolio appreciated by 7.4% during the quarter, supported by the rebound in public credit markets. On a year-to-date basis, our credit funds portfolio in aggregate is down 2.5%, outperforming both the S&P Leveraged Loan

Index and the Bank of America Merrill Lynch High-yield Index by roughly 2%. Our Credit Strategies Fund is also up by 16% year-to-date.

In real assets, our overall return for the quarter was positive 1.4%. Energy continued to have a de minimis impact on our portfolio performance in both private equity and credit this quarter. Our net economic balance sheet value at the end of the second quarter, after debt and preferred equity financing obligations, was approximately $2 per share, growing meaningfully from the prior quarter. Our net performance fee receivable increased by approximately $0.40 per share, reflecting in part the full reversal of clawback in Fund VIII.

Apollo remains in a very strong liquidity position with approximately $1.75 billion of liquidity available on our balance sheet. In June, we raised $500 million through a debt offering to further bolster our capital position in light of accommodating an attractively priced markets. Our dry powder for investments across our fund complex was $47 billion at the end of the quarter, an increase of $6 billion, driven by fundraising during the quarter.

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

Questions And Answers

Operator

(Operator Instructions) Our first question will come from the line of Alex Blostein with Goldman Sachs.

Q - Alex Blostein {BIO 15412167 <GO>}

Great, thank you. Good morning, everybody. So first, maybe just to touch on Marc's decision to step away from the business on a sabbatical, Leon, I guess, as you described. Is this a bigger picture succession plan effort or is this more of a temporary change and Marc will be looking to reengage? And are there any implications on the pace of dealmaking within the insurance space we should anticipate on the back of that?

A - Leon Black {BIO 1444117 <GO>}

I think it's really that we've been in COVID lockdown now for five months. Marc has just quarterbacked two transactions in the quarter, the second quarter, which we've talked to you a bunch about which you're aware of. And he wants to take a little time off from day-to-day operations, especially with the confidence that there's a team there now of over 100 who are totally focused on insurance. And Scott Kleinman's been on the Board of Athene and has been very involved more increasingly on day to day. And as we've mentioned, and the reason we call it a semi-sabbatical is Marc is still very, very engaged in the firm and on the strategic planning with Josh and myself. He remains on the Executive Committee. He remains on the Apollo Board as well as the Athene Board and Executive Committee and on Athora.

So I would really just take it at face of what we've said and not read more into it. I think he has a well-deserved desire to not be involved in so much day-to-day, given the great team that's been built up and how much that's already been accomplished. But I think he would tell you that he thinks we're still in early innings in terms of what he has really masterminded over the last 12 years in building the insurance operations to over $200 billion and I think believes that there's no reason that can't double over the next three, four years, and I think he plans to be a major part of that.

Operator

Our next question will come from the line of Craig Siegenthaler with Credit Suisse.

Q - Craig Siegenthaler {BIO 15021209 <GO>}

Good morning everyone and congratulations on completing two very sizable transactions in the quarter. Just on the two transactions, as we look forward, can you remind us on the level of deal capacity at both Athene in the US and Athora in Europe? And also, can you update us on the current M&A and reinsurance backdrop in both markets as we try to estimate the potential for future transactions?

A - Leon Black {BIO 1444117 <GO>}

Gary, you want to take that?

A - Gary Stein {BIO 1911026 <GO>}

Yeah, I'd be happy to. Let me address the second one first and that is just the activity level that could be available. There are several ways to look at it. One is the market opportunity and the second is how Apollo is positioned to address the issue. The market opportunity today is as robust as it has been over the last four years. The low interest rates continue to put a lot of pressure on traditional companies. Notably, the tight spreads on public securities make it very difficult in the spread business for other companies. We, of course, invest so much in originating good investments and creating extra spread.

The others, their capital rules continue to create pressure, particularly in Europe. Solvency II is problematic for some back books, the old books of companies. And lastly, a lot of companies continue to be more -- try to focus more on lines where they can win business or just be winners. And that means they're exiting lines of business or entire geographies, and we're seeing that level of flow. So I'd say sitting today, comparing to any point in time in the last four years, we are in as many substantive conversations. We have no idea exactly what the timing of transactions will be. But as an overall backdrop, it's every bit as attractive today as it's been at any point in time in the last four years. And in that four years, we've announced five material transactions, three in the US, two in Europe.

And you asked about the capacity -- sorry, you asked about capacity. We said -- as we said, it's over $85 billion of buying power, and that basically relates to the excess capital at Athene plus borrowing capacity. ADIP, of course, still has quite a lot of capacity, and Athora also has about $0.5 billion of capacity of equity. And I think the last point on this growth potential, that's our existing capacity to do transactions, so over $85 billion. But as a reminder, as we said in Investor Day, we're very appreciative our investors believe in us. We've raised over $12 billion in the last 3.5 years of equity capital to do transactions. And we continue to see that as our ability to raise capital when we see opportunities, we think we have the credibility, at least up to this point, we've proven it, and we think will continue to.

A - Leon Black {BIO 1444117 <GO>}

Yeah, I would just add to that. It's very simply, a low interest rate environment means that much of the industry is going to be challenged and will revert to shedding assets. We not only have the reference capital to do sizable transactions, but we've also shown with both Voya and with the recent Jackson, that we can do highly complex deals that provide holistic solutions to sellers.

So I think one, it's in our favor that there should be real supply as long as there're going to be low interest rates, which I think we all agree is certainly in the near- to medium-term outlook. And two, that there's really nobody out there that has both the combination of capital and ability to deal with complexity and come up with holistic solutions and the 100 to 150 people that we have incredible depth of management in this specific area. So I think this all augurs very positively for us in the years to come.

Operator

Our next question will come from the line of Bill Katz with Citigroup.

Q - Bill Katz {BIO 1542109 <GO>}

Okay, thank you very much for taking the questions. Marc, best of luck in your short stayover. Question for maybe, Martin, just on the $1 billion. I wonder if you could just maybe peel that back a little bit and help us understand which portfolios are affected by that? And then just relatedly, I apologize for the (inaudible) question, in your supplement, you sort of mentioned that only $18 billion of the $47 billion of dry powder has a potential to earn management fees. I wonder if you could just expand on that a little bit.

A - Martin Kelly {BIO 15261625 <GO>}

Yes, sure, Bill. So the $1 billion is specific to Fund VIII, and it's also contained to the -- we provided a statistic last call, last quarter that approximately 5% of Fund VIII was on our watch list. These impairments relate exclusively to that and it also includes an impairment that we referenced two quarters ago on our Q4 call. So combined, the impact of all of the impairments are a delay and carry distributions of about $0.25 a share. And as I said in my comments, it's partly energy and it's partly one or two other names that have just been severely impacted by the pandemic.

And then as far as your second question, we -- when we raise capital, we either earn management fees as it's committed, which is typical for most drawdown funds, including Fund VIII, Fund IX or we earn management fees as we deploy the capital. And so the $18 billion that you referenced is capital that's been committed to us but earn on management fees until it's invested and that's more specific to the credit business. The remainder of the dry powder has been committed and is earning management fees and is typically in drawdown funds, Fund IX being the most prominent example of that.

Operator

The next question will come from the line of Glenn Schorr with Evercore.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks very much. One quickie follow-up after all your comments on the insurances. Just curious in your view, rates have been low for a while, spread has been tight for a while. What is it that gets the insurance company to pull the trigger? I know there's a lot of how you see stuff there. And then how important are your proprietary origination platforms for them to choose Apollo over the others in the space?

A - Josh Harris {BIO 1444168 <GO>}

Well, ultimately, there -- I think, ultimately, it's idiosyncratic in each insurance company. Transaction is highly customized and so there's not really a one-size-fits-all answer to that relative to kind of what the factors that have been laid out previously are what's sort of driving the insurance company decision. I think our ability to invest -- our ability to both to create the customized bespoke deal situations and transactions that are highly engineered as well as our asset management capability, our ability to earn extra yield, I mean, we continue to earn and we continue to target and earn 50 basis points extra. And that extra juice on the asset management side also provides a unique secret sauce that allows us to add value. So it's both our ability to originate very idiosyncratic deals and it's the asset management capability that we have.

Operator

The next question will come from the line of Ken Worthington with JPMorgan.

Q - Ken Worthington {BIO 3303320 <GO>}

Hi, good morning. First, I'm pretty impressed you guys know each other so well that Martin can finish Josh's sentences and presentations without even pausing --

A - Josh Harris {BIO 1444168 <GO>}

Technology doesn't always work. I apologize, you didn't hear that.

Q - Ken Worthington {BIO 3303320 <GO>}

So maybe just on the outlook for the pace of deployment. First, maybe what kind of economic recovery do you see? Are we in a U or an L or maybe pick the letter that best describes what you think? And then on the last call, you guys described three phases of deployment, with bespoke capital solutions being sort of in the second phase. Do you see it being sort of early days or later days with regard to bespoke solution opportunities? And ultimately, do you see the -- or what do you see as the outlook for deployment as we look forward relative to 2Q levels? Is it going to pick up? Does it slow down or does it generally stay the same?

A - Josh Harris {BIO 1444168 <GO>}

Well, let's break the business into private equity and opportunistic and credit. I think on an overall basis, the economy is behind -- the fundamentals of the economy are behind the technicals of the economy. The big run-up in the market is driven by very significant fiscal and monetary stimulus. And the S&P 500 earnings outlook continues to be surprisingly that '21 earnings are going to be ahead of '19 earnings. Like we don't -- when we look at the underlying economy and try to compare that to the forecasted S&P earnings, like we don't see it. And therefore, we think there's just going to be volatility as the market absorbs earnings that are coming in a little softer than maybe they would have expected as well as, obviously, you have significant volatility around COVID, around the political environment here in the US. And so -- and then the US-China relationship. Those four factors are going to lead to just volatility. And so we expect that we're going to have opportunities across our platform.

As it relates to discrete pipeline, private equity pipeline is actually picking up. And so even though the markets are -- look to be priced at a premium, when you bifurcate the markets, the bottom 25% of the S&P trades at 10 PE, the top 25% trades above 30. And so there continues to be value-oriented opportunities in Apollo's sweet spot. And so private equity, for the first time, we are looking at other than Tech Data which we announced, most of what we've done -- all of what we've done has been in debt in our private equity businesses. And I think we're seeing that change a bit as our pipeline is building in more traditional private equity.

On the credit side, we're seeing a very robust flow of opportunities in terms of both bespoke capital solutions that you mentioned, where companies are uniquely impacted by COVID and need capital either to overcome leverage issues or to grow, as well both in the investment-grade space and in the non-investment-grade space. And so private capital -- the public markets continue to be hospitable for some of the larger companies. But in many cases, the sort of private capital sector that we operate in is continuing to step in and be able to do transactions. And so we see our pipeline across everything really being very robust.

Operator

The next question will come from the line of Patrick Davitt with Autonomous Research.

Q - Patrick Davitt {BIO 15433277 <GO>}

Hey, good morning. Thanks. A quick follow-up on Bill's question just to make sure we've got the understanding right. So the $0.25 needed to fill, I guess, the net income, that would just be realized cash carry, $0.25 of realized cash carry than anything beyond that would flow through DE.

A - Martin Kelly {BIO 15261625 <GO>}

Yeah, that's right, Patrick. It's a timing impact, so the next set of realizations that are required to fill or to cover that impairment are devoted exclusively to the LPs. And thereafter, it would then flow back into DE and the distribution. And so everything else being unchanged, it pays down LP capital more quickly and then it creates more carry after that to the firm.

Operator

The next question will come from the line of Robert Lee with KBW.

Q - Robert Lee {BIO 1495505 <GO>}

Great. Good morning. Thank you for taking my questions. I guess, maybe sticking with the insurance theme. Just curious with Athora, specifically, what is the opportunity there for kind of redeployment of the VOD assets? If I think historically, you don't necessarily present it this way. With Athene, it seems like on a new block of business and over time, roughly about 20% of the investments kind of were -- made their way to various Apollo Vantage funds and whatnot. Is the same opportunity there for Athora or given the different regulatory rules, there is not as much potential to shift the portfolio around?

A - Josh Harris {BIO 1444168 <GO>}

Gary, why don't you take this one?

A - Gary W. Parr {BIO 1704963 <GO>}

I can do a part of it and then hand off to Martin. A few things. As you know, our arrangement with Athora is that we have a standard fee, our base fee, where we provide a variety of services to Athora and all the parts of Athora for asset liability management, risk management, mergers and acquisitions and so on. So that base fee is in place. As it relates to the rest of Athora and the various parts of Athora, we sub-advise on various asset classes where we have expertise.

And a big headline, of course, is that in Europe, roughly 50% of an insurer's balance sheet is going to be sovereign governments. And that's just a part of managing asset liability in Solvency II, so that's not something that we do or apply. So by definition, there's a smaller pool of the total of assets but that's exactly then what we again provide our expertise. And over time, assets will, in those segments of expertise, we have, that's what VIVAT will be and Athora generally will be looking to us to provide. Maybe, Martin, I know you as to how we communicate

A - Josh Harris {BIO 1444168 <GO>}

Yes, I mean, in the next 12 to 24 months, we would expect that the -- to be redeploying Athora's assets into higher-yielding assets, and Apollo will be sub-advising more of those assets. We haven't really said specifically -- we haven't put a target out there specifically, but what we've ultimately said is that the economics, there are lots of nuances and differences between Athene and Athora. And what we've ultimately said is that the economics on the AUM of Athora to Apollo should be similar to Athene. And we've left ourselves 24 months or so to get there.

Operator

The next question will come from the line of Devin Ryan with JMP Securities.

Q - Devin Ryan {BIO 5863151 <GO>}

Great. Good morning. Just a question here on the outlook for realizations and appreciating the capital markets have reopened, I think, which has been a positive. But I'm really trying to get a sense of whether you feel like there's going to be an ability to sell assets through M&A. I guess, I'm curious if virtual processes are starting an ability to do that.

And whether there's any kind of efficiencies that are being learned today that may last beyond the pandemic. Obviously, everyone's using technology quite a bit more. So I'm curious kind of how that connects as well. And then just anything more you can say about kind of the realization outlook would be appreciated.

A - Josh Harris {BIO 1444168 <GO>}

Yes. I mean, the realization outlook is difficult to predict. And I think that we hesitate, given all the volatility to predict, how that's going to go. Right now, I would say that it's more difficult but things are changing on a daily basis. And I do -- I think that certainly in terms of transactions, people are getting used to doing diligence by Zoom, virtual data rooms, virtual management meeting, actually experienced one myself. And then ultimately, the face-to-face interaction that you need when you're partnering with the team. That gets more limited, but -- and has to be done carefully.

So it's -- the M&A markets will work around the pandemic, but I think that it's not -- I would say it's not -- certainly, it makes it a little bit more cumbersome but is manageable. So I think we continue to focus on -- so we'll hesitate from predicting realizations. I think that we continue to look for opportunities, and we do have some public companies that are able to kind of take advantage of the public markets. But by and large, we're focused right now on growing and continue to deliver very significant and durable FRE and high margins and continue to grow our FRE stream, which is much more predictable. And I think we think over a cycle, our realizations will be there. We're building value in our portfolio.

Operator

The next question will come from the line of Gerry O'Hara with Jefferies.

Q - Gerry O'Hara

Great, thanks for taking my questions this morning. Perhaps one on the strategic origination business, and if you could maybe add a little context or color on the opportunity set, what Apollo's competitive advantages there and perhaps even how you see that platform scaling going forward. Thank you.

A - Josh Harris {BIO 1444168 <GO>}

Yes. So our competitive advantage, obviously, we have the largest alternative credit business in the world and we have hundreds of investors and originators, and we have a really significant capital base. And so what that allows us to do is to commit $1 billion to up to $2 billion of capital to sort of larger companies in the $1 billion to $5 billion TV that need capital solutions very quickly in a very bespoke way. And I think that we -- because of our -- the size of our platform and the size of our capital base really puts us in a very unique position in today's markets where the need for capital is quite large. And so I don't think there's very many people that can -- that have those advantages, and so we're in a very small group. And so it's going to be a really interesting capability that not a lot of other people have.

Operator

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

Q - Chris Harris {BIO 7312638 <GO>}

Great. Can you guys maybe give us an update on trends you're seeing in your underlying portfolios? I know in the past, I think you've talked about -- about 5% of the portfolio on watch. Has that changed at all since last quarter?

A - Josh Harris {BIO 1444168 <GO>}

Yes. So at this point, it's about 3%. And I think that right now, we've -- obviously, as we mentioned in the last call, we definitely took our hits in energy. And then we've had one or two other situations that have been -- are in COVID-affected industries, certainly restaurants being front and center. And those have all been marked down and therefore, or marked to zero. And that's part of what Martin is talking about or pretty much all of what Martin's talking about on the $0.26. So going forward, we don't see a lot of issues. I mean, obviously, a -- and sort of -- so we expect the portfolio to improve from here, subject to in -- and head in a very positive direction, subject to, obviously, kind of an economic downturn that goes the other way, which we don't really forecast right now. So we think kind of a lot of our issues are behind us, and we're going to build value from here.

Operator

Next question comes from the line of Michael Cyprys with Morgan Stanley.

Q - Michael Cyprys {BIO 16672489 <GO>}

Hey, good morning. Thanks for taking the question. Just wanted to follow up a little bit on the strategic origination platform. I was just hoping maybe you could elaborate a little bit more on your aspirations there longer term and maybe talk about how you're approaching planning to originate in this larger part of the marketplace, maybe what are you building out in terms of headcount? And I know a lot of the private credit space has been more sponsor-financed. It sounds like this is maybe a little bit less so. Maybe you could just talk a little bit about the hurdles in terms of moving beyond sponsor finance? How are you approaching that?

A - Josh Harris {BIO 1444168 <GO>}

Yeah. I mean, I think, like, basically, we're building out -- we have a significant origination at mid-cap that's in the lower middle market. And then we're making significant hires in the middle and upper market. And this all relates to the sort of withdrawal or sort of the pullback of the banks from being willing to make significant underwriting and capital commitment, and we've set up a situation where we have the -- both client balance sheets that are able to hold as well as a vehicle that allows us to underwrite and then sell. And so we're building up kind of a whole team to do that, and we've already made a series of hires, and I expect that team to be in excess of 20 to just be out calling on companies and on sponsors. It's really that simple.

And then we're building up a capital markets effort. We're adding to our broker-dealer and our capital markets effort to be able to kind of syndicate a little bit where we're committing to a little more than we ultimately want to own for our clients. And so the ability to underwrite and sort of quickly underwrite up to a $2 billion loan is something that is going to be unique or amongst a very small group of people. And so we expect that to be highly needed in the marketplace. And so we're hiring on both fronts, capital markets and origination. And ultimately, we expect there to be a lot of action there.

And I mean, it's no different. I mean, you're literally out just calling on companies and calling on sponsors and it's a lot of the same skill sets. We have -- and across our platform because we're integrated, we have hundreds of professionals in private equity and credit that now have just greater tools in their toolkit. So because of the integration across our firm, private equity, credit, real estate, this is just -- we now have a lot more capability. A private equity team member that might be calling on a company now knows, well, maybe you don't want to go private, maybe you don't want to sell your company but we've got this other opportunity to offer you. And so increasingly, under the leadership of Scott and Jim, we're seeing the whole firm, all 500 of our investment professionals taking part in this. And so we are building up unique people to do this but it's across our platform. And our integrated platform is very different than how other people run their businesses.

Operator

The next question will come from the line of Jeremy Campbell with Barclays.

Q - Jeremy Campbell {BIO 17308133 <GO>}

Hey, great, thanks. Just maybe one on the insurance landscape. Obviously, given all your peers have jumped into the market relatively recently over the past year or so and your relationship with Athene, the capital side and Venerable, sort of a little bit differentiated. Just kind of wondering, does this competitive market kind of relegate you and Athene and the partners to more kind of big game hunting here in insurance world as maybe the smaller deals get a little bit aggressively bid, given the competition? And then if so, maybe just from the insurance executive side, what are some of the hurdles that you guys see to these executives doing a big deal like that?

A - Josh Harris {BIO 1444168 <GO>}

So it's a big deal that, and it's also like our ability to navigate complexity and structure bespoke solutions that tackle big insurance portfolios that might not be discretely fixed annuity or discretely variable annuity. And so it's those broad set of -- our broad set of capabilities and then it's our asset management capability. So it's all three of those things that make us unique. But Gary, you want to add to that?

A - Gary W. Parr {BIO 1704963 <GO>}

I might just very briefly to say that we view our breadth of expertise and our size as indeed one of our big competitive advantage. We have six segments of expertise, US spread business, European spread, variable capability, life settlements and structured settlements is in the fund FCI, and we have property casualty runoff and then P&C flow. With all those skills, we can then go to larger companies and talk about solutions. So your question somewhat relates to, I think Glenn asked it earlier, about the comparative advantages in these transactions are there common themes.

And if you take the three US transactions, Voya, Lincoln and Jackson, a common theme was that these companies were looking for a solution to something. They actually weren't selling something per se. Their business wasn't for sale per se, but they were trying to solve for different strategic directions. And that's where we go in with our expertise and capital and we work with them. So the CEO dialog actually, you would enjoy being in the room to hear the dialog because a CEO is talking about what they're trying to accomplish in their company, Prudential being the most recent in our conversations with Mike Wells, which were just delightful and productive but us trying to figure out win-win-win solutions. And by that, we mean that in that instance, Prudential, Athene and Apollo stocks all outperformed their respective peers on the announcement of the transaction.

The same happened in Voya. One of you all actually wrote about that. So that's what prompts a CEO to want to engage is -- and now we actually have a track record. So relative to our competition, we've now established this singular track record of creating value for multiple parties involved in a transaction. That's a comparative advantage that we will continue to -- in these substantive conversations we're having today. That's the kind of conversation we have.

A - Josh Harris {BIO 1444168 <GO>}

We have more permanent capital than anyone other than Berkshire Hathaway. And the truth of the matter is we're so deep and so well-known in the insurance space and our regulatory relationships are positive that all of these things create a franchise for us that is unparalleled, and we're attracting -- the ability to track talent is probably positively impacted by that.

Operator

Your next question is from Christoph Kotowski with Oppenheimer & Company.

Q - Christoph Kotowski

Hi, good morning. Thanks. Josh, you were talking about the disconnect between the real economy in the market. I was just looking at the statistics, which has the leveraged loan default rate at around 3.9% and it's almost all in energy resources and retail. If you had to guess, six to nine months from now, where would that be? And what is both the risk to existing investments and the opportunities to deploy against that?

A - Josh Harris {BIO 1444168 <GO>}

Yes. So I mean, obviously, the answer to that is going to depend on ultimately the liquidity that's provided by the Federal Reserve that's indicated that it's all in and the economy, the recovery of the economy. I think we expect that it will go up from here. And I think that, that will kind of open up a series of opportunities for us. And so do we get to double digit? We could for a year, for some period of time.

I think that, that will open consecutive opportunities for us. As to kind of like our portfolio, we're pretty much all first-lien in top of the capital structure. We've been very oriented towards the safest, most high-quality secured debt across our platform. And that did not serve us well -- as well in a risk on environment but it serves us very well in an environment like the one you're describing. And so we expect that our portfolio to be quite robust in that scenario and that opportunities I think would open up a lot.

And so certainly, we're not -- for the world, obviously, we're not -- we hope that we're wrong and that the economy does as well as the stock market thinks it will do, but we're not planning for that in terms of how we invest. And so therefore, we think we would be pretty robust in that situation. I think capital would also find us.

Operator

The next question will come from the line of Adam Beatty with UBS.

Q - Adam Beatty {BIO 16011804 <GO>}

Hi, good morning. Thank you for taking the question. I just wanted to follow up on the existing portfolio companies, more so from the deployment angle. How much of the -- wanted to get a sense of how much of the deployment so far this year has been with companies that you already owned and kind of the outlook on that. And also if you could, the mix within that deployment of kind of offense versus defense depending on the specific Company circumstances?

A - Josh Harris {BIO 1444168 <GO>}

Yes. So that's a zero or negligible, so very little. I mean, there may have been something that went into the existing portfolio so I want to -- very little has gone into the existing portfolio and nearly 100% has been on offense. So when we talk about the 3%, we're not -- we haven't had to deploy in the existing situations to prop up companies.

Operator

And with that, I will now hand the conference back over to Gary Stein for closing remarks.

A - Gary Stein {BIO 1911026 <GO>}

Great. Thanks, operator. Thanks, everyone, for joining us. If you have any questions, please feel free to follow up with us, and the team looks forward to catching up with you again next quarter.

Operator

This does conclude today's conference call. We thank you for your participation and ask that you please disconnect your lines.