Company Name: Apollo Global
Company Ticker: APO US
Date: 2019-10-31
Event Description: Q3 2019 Earnings Call

Market Cap: 18022.3379485
Current PX: 41.1599998474
YTD Change($): 16.6199998474
YTD Change(%): 67.726

Bloomberg Estimates - EPS
Current Quarter: 0.724
Current Year: 2.344
Bloomberg Estimates - Sales
Current Quarter: 576.167
Current Year: 1909.714

# Q3 2019 Earnings Call

## Company Participants

- Gary M. Stein, Head of Investor Relations
- Josh Harris, Co-Founder, Senior Managing Director
- Martin Kelly, Chief Financial Officer
- James Zelter, Co-President, Managing Partner & Chief Investment Officer

## Other Participants

- Craig Siegenthaler, Analyst
- Bill Katz, Analyst
- Alexander Blostein, Analyst
- Michael Carrier, Analyst
- Glenn Schorr, Analyst
- Ken Worthington, Analyst
- Robert Lee, Analyst
- Patrick Davitt, Analyst
- Gerald O'Hara, Analyst
- Brian McKenna, Analyst
- Chris Harris, Analyst
- Michael Cyprys, Analyst

## Presentation

### Operator

Good morning and welcome to Apollo Global Management's Third Quarter 2019 Earnings Conference Call. During today's presentation, 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 for risk factors related to these statements. Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the Company's website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Apollo fund.

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

### Gary M. Stein, Head of Investor Relations

Great. Thanks, operator. Welcome to our third quarter 2019 earnings call. Joining me this morning are Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer and Co-Chief Operating Officer. Jim Zelter, Co-President, and Gary Parr, Senior Managing Director are also here with us and will be available during the Q&A portion of today's call. Earlier this morning, we reported distributable earnings of $0.54 per share, which led to a cash dividend of $0.50 per share for the third quarter. The quarter's distributable earnings were primarily driven by pre-tax fee related earnings or FRE of $0.52 per share. As a reminder, we will be hosting an Investor Day next Thursday November 7th, and we look forward to engaging with all of you there.

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

## Josh Harris, Co-Founder, Senior Managing Director

Thanks, Gary, and thanks, everyone, for joining us . Looking back on our performance over the third quarter and the last 12 months, we continue to move and power forward in terms of our financial results as well as our strategy. Regarding our financial performance, we have grown AUM and fee-generating AUM 19% year-over-year or FRE has grown by 30% during the same period. From a strategic standpoint, we have also been active in a number of ways. First, on September 5th, we completed our conversion from a publicly traded partnership to a C corporation. We've been very pleased with the reaction since we announced our conversion and we believe the positive effects are already becoming evident. Our average daily volume has more than doubled from pre-conversion levels to 2.6 million shares currently. We have recently been added to the CRIS Indices, which for example, resulted in the purchase of nearly 13 million shares by Vanguard at the end of September.

We've seen a meaningful shift in Apollo's ownership base towards large institutional investors since we announced we would be converting. We believe the growth in long-only and passive ownership of our stock has only just begun and has already grown from 35% of our flow to more than 50%. We think we're only in the middle innings in terms of realizing the benefits of our C corporation conversion and believe we will continue to see a transition of our shareholder base going forward. We expect to be added to additional indices over the next few months such as MSCI and we've also been actively engaging with large long-only institutional investors that could not own our stock prior to conversion. Ultimately, based on what we have seen from some of our peers that converted before Apollo, we believe that more than 70% of our public float could be owned by long-only and passive investors, which would be more than twice our level prior to conversion.

In addition, as many of you know, earlier this week, we announced a strategic equity exchange transaction with Athene. Through this unique transaction, we are more than doubling Apollo and certain of its related parties and employee ownership stake in Athene from 17% to approximately 35%. At the same time, Athene will be eliminating its dual class structure and taking approximately 7% stake in Apollo making -- marking the first time that they will have a direct economic interest in our financial success. In total, we're investing $1.55 billion in this transaction, which includes the exchange of $1.2 billion of common equity with Athene and the purchase of an additional $350 million of Athene common stock. As we said on Monday, we're doing this because many investors were telling us that the structure of Athene's super voting shares held by Apollo was a negative on the valuation of Athene and Apollo shares.

For Athene, the concern was that Apollo did not have enough capital at risk while managing the assets. So there was an unfounded concern Apollo might take too much risk or cause Athene to grow unprofitably. For Apollo, there was concern that Athene would want to change the asset management contract because we were not fully aligned with them. Although we thought the concerns were unfounded, we listened. We believe we now have a stronger -- we now have stronger alignment to ensure the durability of the relationship. We believe our investment in Athene is a great example of our highly efficient use of Apollo's balance sheet to pursue strategic capital initiatives. In the case of Athene, pro forma for this transaction, Apollo will have an investment in Athene's equity valued at approximately $2.3 billion, which has helped create and grow a business where we manage approximately $125 billion of assets.

In connection with Apollo's ongoing efforts to drive Athene's strategic growth, we have now closed on $3 billion of capital commitments to date for investment into Athene's strategic capital vehicle, which we refer to as ADIP. When this third-party capital vehicle is combined with Athene's standalone capital, the cumulative buying power represents more than $70 billion of potential incremental assets for Athene through M&A and pension risk transfer transactions. In addition to the C- Corp conversion and Athene transaction, from a strategic standpoint, we have also continued to make progress on building out Apollo's Direct Origination platforms. During the quarter, we announced the acquisition of GE Capital's industry leading aviation lending business PK AirFinance, which is highly complementary to our existing (technical difficulty).

Also during this quarter, MidCap Financial, a specialty finance for managed by Apollo Capital Management, acquired a franchise finance business from PNC Bank broadening their range of origination capabilities. We have continued to make significant progress in terms of expanding our origination platforms and we very much look forward to sharing the details with you at next week's Investor Day. Before I turn the call over to Martin, I'd like to make a comment about our senior leadership team. We continue to be focused on building a great firm. We've been promoting, hiring, and developing the best and the brightest in the industry in a variety of leadership positions and we look forward to sharing more details about this at our Investor Day.

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

## Martin Kelly, Chief Financial Officer

Great. Thanks, Josh. Starting with the results for the third quarter, we continue to demonstrate the strength, stability, and growth of our fee-related earnings on a year-over-year basis, which supported distributable earnings of $220 million or $0.54 per share. Pre-tax fee-related earnings of $213 million or $0.52 per share were complemented by modest realized performance fees and realized investment income, principally generated by our Private Equity segment. For the 12 months ended September 30, 2019, FRE totaled $2.23 per share reflecting 30% growth over the prior year period. This growth was supported by 19% management fee growth and an emphasis on efficiency and cost discipline driving margin expansion. In the third quarter, management fees grew 3% quarter-over-quarter and 11% year-over-year driven by strong inflows across the platform. Advisory and transaction fees were lighter in the quarter due to the timing of deal closings.

We expect fourth quarter advisory and transaction fees to increase based on several transactions that we expect will close within the quarter. Costs increased in the quarter driven by increases in headcount as we invest in our business. Performance fees grew quarter-over-quarter, but remained modest, consistent with our expectation that performance fees will be more back loaded for the year. We declared a $0.50 per Class A Share dividend in a light realization and light advisory and transaction fee [ph] quarter, bringing the total Class A cash distribution for the 12 months ended September 30, 2019 to $2.02 per share.

Turning to investment performance, our net accrued performance fee balance grew 25% in the quarter supported by positive marks across our private equity credit and real assets businesses and reached its highest level in nearly two years. In private equity, the funds we manage appreciated by 3.6% in the quarter, despite some energy headwinds as revenue and EBITDA growth remained consistent with long-term trends. The successful (Technical Difficulty) beginning of the fourth quarter and increasing visibility into other monetization processes also added support to third-party marks -- third quarter marks.

Our funds private portfolio company holdings appreciated by 4.6% during the quarter while the funds public holdings depreciated by 0.6%, impacted by mark-to-market adjustments on debt investments. Importantly, Fund VIII appreciated by 7.6% in the quarter bringing 2019 year-to-date appreciation to approximately 17%.

In credit, we generated positive performance across the board with gross returns of 1.8% for each of corporate credit and structured credit and 2.9% for direct origination, outperforming the S&P Leveraged Loan Index total return of 1% and the Merrill High Yield Index return of 1.2%. Within our credit business, energy constitutes just 2% or $1.7 billion of our credit AUM excluding Athene. And during the quarter, there was negligible impact to credit results from energy. In real assets, performance remained strong with aggregate appreciation, excluding real estate debt of 4.6% for the quarter, and approximately 11% for the 12 months ended September 30.

I'd now like to move on to asset growth, which forms the basis for growing management fees and ultimately, fee-related earnings. During the third quarter, Apollo saw gross inflows of $16 billion driven by Athene and Athora flows and capital raising across a number of funds. We held first closes for our FCI IV, US Real Estate III and Navigated Funds during the quarter. Navigated represents our first dedicated fund related to aircraft leasing, a strategy we've been active in for many years.

During Q3, we closed on $500 million for our ADIP Fund and as Josh mentioned, we just closed on an additional $1.5 billion. Over the last four quarters, gross inflows have totaled $75 billion. Our asset raising remains robust, consistent with the growth trends we've been able to demonstrate not just over the past three or five years, but since our IPO eight years ago. Within credit, fee-generating inflows totaled $9 billion during the quarter and $48 billion over the 12 months ended September 30, 2019.

Looking ahead, we remain confident in our ability to drive strong AUM growth across the platform, fueled by fund raising across strategic capital initiatives, vehicles focused on strategies within each of our businesses, and ongoing capital raising for managed accounts. With regards to deployment, funds managed by Apollo put $3 billion of capital to work across commitment-based funds and over the last 12 months, capital deployed and commitment based funds were $17 billion. This is in addition to capital we've put to work across managed accounts Evergreen Funds and other investment structures.

During the quarter, Private Equity Fund IX closed on its take private acquisition of Shutterfly, which marks the 12th public company within the last four years to be taken private. In addition, our Hybrid Value Fund remained active and is now approximately 40% committed or invested after having just held its final close in March, reflecting the strong pipeline in place for our newest private equity strategy.

Looking ahead, we continue to identify and evaluate an active pipeline of investment opportunities across a broad spectrum of asset classes and we are optimistic about our ability to deploy capital at a solid pace in various market environments.

Finally, as it relates to realizations, we sold shares during the Verallia IPO earlier this month and have visibility into several transactions, some of which have already been announced that should contribute to fourth quarter performance fees. As we mentioned during last quarter's call, we also expect that the crystallization of carry in several credit funds should be additive to Fund VIII monetizations in the fourth quarter. Partly offsetting these higher realizations in the fourth quarter will be an elevated profit share expense of approximately $59 [ph] related to our incentive pool. Depending on the timing of the close of the sale of Presidio, we expect that net carry realized in 2019 will be in line with or higher than it was in 2018.

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

Thank you. (Operator Instructions) Our first question comes from the line of Craig Siegenthaler of Credit Suisse.

## Craig Siegenthaler, Analyst

Thanks. Good morning, everyone.

## Josh Harris, Co-Founder, Senior Managing Director

Good morning.

## Craig Siegenthaler, Analyst

Can you walk us through the composition of the $8 billion of credit inflows in the quarter by product?

## Martin Kelly, Chief Financial Officer

Sure, most of that was coming through Athene actually, so the permanent capital platforms contributed a majority of that. Both Athene organic flows, a pension deal that they did, as well as increases in sub-advisory mandates across both Athene and Athora and then I call out the other funds that I mentioned in the remarks.

## Craig Siegenthaler, Analyst

Thank you, Martin.

## Martin Kelly, Chief Financial Officer

Sure.

## Operator

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

## Bill Katz, Analyst

Okay. Thank you very much for taking the questions this morning. So maybe I'll sneak in a two-parter. I guess on the fee-related earnings margin, I was sort of wondering if you could sort of give us a walk through how you sort of see that progressing as we go into 2020 and then could you just clarify the $50 million profit share of what is prompting that relative to the realization activity? Thank you.

## Martin Kelly, Chief Financial Officer

Sure, Bill. So the margin, as we've said, we're mid-50s percent margin. That's where we're expected to be. We're pleased with that and we balanced investments in the platform and growth against revenues that we have a high conviction of and so I would expect that the margin, which on a year-to-date basis is mid-50s, will be around about that level as we look ahead and it really comes down to decisions we make around future investment spend versus revenues that typically follow after you expense the investments. So we're committed to maintaining margins what we see is best-in-class and we manage that carefully, but I would think sort of mid-50s as we look forward.

And then on the incentive pool that's a year-to-year plan that we -- that we've used now for many years to reward individuals with compensation derived from carry. We make decisions on a year-to-year basis and it tends to track the timing of realization. So as we expect realizations this year to be back ended in Q4, we also expect the costs for the incentive pool to be to be back ended.

## Operator

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

## Alexander Blostein, Analyst

Hey, guys, good morning. Thanks. So maybe zoning in on Athene for a second. The $70 billion of the incremental asset purchases potentially with all the excess capital that's between all these various vehicles. Do you guys anticipate could come in over time? Can you talk a little bit about maybe the composition of M&A opportunities you see there given the fact that lower interest rates probably put a little bit of pressure on the kind of more pure kind of vanilla fixed annuity reinsurance transactions and ultimately, how quickly do you guys anticipate some of these transactions to come through?

## Gary M. Stein, Head of Investor Relations

So -- hi, this is Gary. You couldn't [ph] get an answer that's quite like the answer even two years ago and that is as to predicting timing, we're not able to do that. I -- it's hard to say. Having said that, what we also said a couple of years ago before we did some big transactions is we have a very active pipeline and it is interesting is, of course, the decline in rates has caused more on a number of the insurance companies, and that's actually where our comparative advantage comes through to give us an edge and it's what creates a lot of the flow. And that is so long as we can produce some incremental spread through origination and other capabilities that means we can actually do something that makes sense, where the insurers can't make a reasonable profit or get a good return on their capital. So we still see plenty of opportunity to move liabilities our way. And so long as we can continue to add that enhanced spread relative to what they can earn.

## Martin Kelly, Chief Financial Officer

Yeah, the only thing I would add is, obviously, with the 3 billion we've closed on recently in ADIP, it's -- obviously, the limited partners spent awful lot of time reviewing pipeline and other things before committing those dollars. And so clearly, it's not -- it's certainly not predictable, there's definitely a lot of things to think about and a lot of possible activity or that -- that would be an indication that there is based on their funding off of that commitment.

## Operator

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

## Michael Carrier, Analyst

Good morning and thanks for taking the question. Seems like more recently, we've seen some dislocation in the leverage loan market, it seems more flow driven probably than credit driven. But just curious if you're seeing any impact on the credit performance or in terms of financing?

## James Zelter, Co-President, Managing Partner & Chief Investment Officer

Well, this is Jim. Yeah, what you're talking about, there certainly seems to be in the leveraged loan market and the new issue market a world of haves and have nots and because of the preponderance of CLO buying and their ability to own CCC paper, there's this tight basket, the B3B minus issuers are really having a challenging time. Companies that have wide access do very well, those that don't, it's been more challenging. So that -- there is a bit of weakness in the leveraged loan market really in the B3B minus sector.

I would add that while the overall economy and the markets are doing well, there's been a fair amount of dispersion this year in the credit markets. BB's are up quite strong, 7%, 8%, where CCC's were down 7%, 8%, so wide dispersion. And I think that just shows you the maturity of the market. For our credit platform, we've really had a strategy of staying very senior and not really playing a lot of middle market distress that's worked well for us. So there are some pockets of weakness out there on, but we -- our numbers were strong and we feel very good with our strategy and our performance.

## Michael Carrier, Analyst

All right, thanks a lot.

## Operator

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

## Glenn Schorr, Analyst

Hi, thanks. A question on just your assessment on peak performance. Now, I'm not losing tons of sleep given your last 30 years of performance, but last 12 months, not what it usually is. So curious how much that is a function of market environment and -- price is just not at the place where you normally play, but just curious on how you're looking at that.

## Martin Kelly, Chief Financial Officer

Yeah, and I know and we've just been through a review of our entire portfolio. I think that the last nine months performance is up 17 and then the Fund VIII is up 17. And you've had -- it's 1.5x, it's about 3.5 years old on average, and so what you've seen is a dispersion between growth and value. And so we feel -- I mean, we bought that portfolio at 6.5 times, it's -- the multiple was about that in terms of our mark. And kind of -- we feel pretty good about where the portfolio is heading and we're starting to see we -- that portfolio was acquired at about a five multiple point discount to the average multiple paid for larger transactions. And I think that where the mark on that portfolio was a little bit caught up in kind of this dispersion, as well as maybe a little bit of the downdraft in energy, which is kind of behind us now.

So we feel very good about where that portfolio is heading and you're starting to see it in our accrued carry. And I think you'll see some -- presuming that the markets hold out over the next 12 months, you're going to start to see the pickup in realizations there as that portfolio matures.

## Operator

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

## Ken Worthington, Analyst

Hey, good morning. Just reflecting on the announcement for Athene, it seemed like Athene investors were more enthusiastic about the impact for Athene than Apollo investors were. So as you reflect and you probably have fielded more questions about the transaction since your call, are there elements that you think Apollo investors are sort of under appreciating in that transaction?

## Martin Kelly, Chief Financial Officer

I think that the Athene transaction, we took a very long-term point of view in terms of economically aligning our ownership of Athene and their ownership of Apollo, they now participate with Apollo and we now have a larger ownership of Athene. And we got rid of the super vote and increased our economic ownership, which we think is more highly sustainable. I mean, what we said on the call was that because -- Athene has a tremendous amount of earnings and it -- but it doesn't pay a dividend. So from an FRE point of view, and I think this is maybe one of the things that people are reacting to, it's about 7% dilutive even though some of the parts, it's neutral. And if you were to include the economic ownership of Athene's earnings, it would be greater than 40% accretive.

And so we obviously are going to discuss a lot more of this on -- in Investor Day, but I think it's just going to take a while for us to get that message out. So I don't -- I think we're -- and I think maybe to focus a little bit on the short-term FRE dilution is what -- I think there is a tremendous amount of benefit to it and we bought a great -- we made an investment in a great company and it was very strategic for us. But there might be a little too much focus on the immediate FRE dilution versus some of the longer-term benefits and we're going to talk about -- and the earnings power and we're going to talk about all that more in our Investor Day.

## Ken Worthington, Analyst

Okay, great. Thank you very much.

## Gary M. Stein, Head of Investor Relations

Thanks.

## Operator

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

## Robert Lee, Analyst

Great, thanks for taking my questions. Actually, Martin, could you -- I just want to make sure I understood it correctly, your comment about net realization expectations, not so much for Q4. I thought I heard you say next year we should be somewhere to -- was it this year or last year? I just want to make sure I understood it.

## Martin Kelly, Chief Financial Officer

No -- so this year depends on when Presidio closes. So if Presidio does not close this side of year-end, then this year's net carry will be in line with last year. If it does close this side of year-end, it will be more. And then as we look into next year, we expect a significant uptick in that carry in '20 relative to '19.

## Operator

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

## Patrick Davitt, Analyst

Hey, thank you. Another follow-up on the realization guide. Is it only flat to up versus 2018 because of this $50 million payout is on top of the normal payout, so the gross realized revenue was actually up year-over-year? Is that the right way to think about it?

## Josh Harris, Co-Founder, Senior Managing Director

No, that number is similar year-on-year. It's just -- if we don't have the realizations then we're not going to make that payment. And so as the realizations this year are more back ended with -- we're expecting to take a charge associated with that also on a back-ended basis, but the -- the amount of the incentive full year-to-year is very similar.

## Patrick Davitt, Analyst

So the percentage of growth should be similar?

## Josh Harris, Co-Founder, Senior Managing Director

Yes.

## Patrick Davitt, Analyst

Yeah. Okay, thank you.

## Operator

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

## Gerald O'Hara, Analyst

Thanks, good morning. Maybe picking up on the aviation lending business for a moment. Obviously, you kind of noting here that there was the deal done in the quarter, but also it sounds like, if I heard correctly, a dedicated first time fund. Perhaps you could give a little sense on where you see the opportunity set in that market and potential growth? It also looks like it's somewhat delineated between the credit platform and the Athene platform. So any color there would be helpful. Thank you.

## James Zelter, Co-President, Managing Partner & Chief Investment Officer

Sure. As Martin referenced, we've been in the aviation business for a while, it's really been on the credit side, where we are a midlife lessor. We started under the BDC, we started a company called Merx Aviation. Over the last seven, eight years now, they have successfully deployed several billion of capital, purchased a couple of hundred leases. And today, that portfolio has returned nice low to mid double-digit returns very successfully. And through the knowledge of that and through the insight of the aircraft space in our asset management skills, which have grown, as Martin discussed, we, with conjunction with Athene purchased, PK Aviation Finance, which was the debt provider at GE Capital. That was a business that it -- from our perspective, the institutional knowledge was transferable, and from our perspective, that's a business that really is a debt provider for commercial aviation, a business that's got a 30-plus year track record, a very, very, very low defaults. And as part of doing that in conjunction with Athene and our affiliates, basically what Athene is able to do is create investment grade debt securities that is very, very comparable in rating, but is very greater in yield on an investment grade basis. And in doing so, it's a real win for Athene in terms of their alternatives basket on the equity on their investment grade debt holdings. So the PK Aviation and Navigator Finance are separate entities and separate activities, but in terms of the institutional knowledge, they are certainly the part of the beneficiary of our integrated platform.

## Martin Kelly, Chief Financial Officer

It's also a huge area, there's a huge need for capital and we see it as an area that's going to grow over time. So we do think that you'll continue to hear more about us expanding that business and we think we have unique capability and it's -- again, it's just another example of us building these origination platforms that go off the run and out of the public markets, and by doing that, we're able to offer our clients, including Athene, but also our LLP clients extra return per unit of risk. And so that's -- it's a hallmark of what we do and it's an -- it's another example of what we're doing.

## Josh Harris, Co-Founder, Senior Managing Director

And just to clarify, the transaction was announced in August. We expect it to close in a couple of phases across Q4 and Q1.

## Operator

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

## Brian McKenna, Analyst

Hi, thanks. This is Brian McKenna for Devin. So just a quick modeling question from me. The payout ratio has been just north of 90% year-to-date. Is that a good level moving forward? And then if I look at the DE walk up, the percent to common ratio ticked up to 56% in the quarter. So I'm just trying to figure out where that should be kind of going forward because it looks like it's up a little bit from the prior quarters.

## Martin Kelly, Chief Financial Officer

Sure. So we'll talk more about the dividend policy at the Investor Day next week. The -- I think the short version of that is the policy remains unchanged. We expect to continue to pay out a majority of our DE as a dividend and we may institute some minimum related to FRE. And then on the percentage allocations right to Class A that actually reflects some changes that were done in conjunction with the conversion to a C-Corp where certain unit holders made charitable exchanges of units per share. And so there has been a redistribution between A's and AOG Units in that ratio sort of 56 to 44.

## Brian McKenna, Analyst

Thank you.

## Martin Kelly, Chief Financial Officer

Sure.

## Operator

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

## Chris Harris, Analyst

Thank you, guys. You mentioned 13 million shares of Apollo's stock was purchased by Vanguard as a result of being added to CRSP indices. Any sense on as to how much more stock can be bought based on the other indexes you guys potentially could be added to?

## Martin Kelly, Chief Financial Officer

Yeah, I think it -- Look, I think this will play out now over the next -- close to a year. There's a handful of other indices that we expect to be included in and they will each add a percentage point or two to the ownership. And then around that, we expect it continue to increase by long only investors and other funds that sort of track the index in some way. So I think the collection of all three of those shows momentum in the stock, in terms of ownership in long-only or passive hands. In the last couple of months, we're seeing that ratio jump from 35% of the ownership to almost 35%, as Josh mentioned, so I'd expect to see that continue to play out over time.

## Josh Harris, Co-Founder, Senior Managing Director

And I think what we said in my remarks is that when you look at other similar peers that have converted before we did that sort of ownership gets to more than 70% of their public float. So you could see another 15% or 20% of our float if you just use that analogy moving into more stable -- like more deep hands.

## Operator

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

## Michael Cyprys, Analyst

Hey, good morning. Thanks for taking the question. I was just hoping to circle back to MidCap. You guys had mentioned the acquisition from PNC of the franchise finance loan portfolio. So I was just hoping; one, you could just give us a sense of the opportunity set that you see there, maybe a little bit of an update on the MidCap platform build out? And maybe just more broadly, how you're thinking about the broader opportunity set for these sort of tuck-in acquisitions for expanding the origination opportunity set.

## James Zelter, Co-President, Managing Partner & Chief Investment Officer

Great. So for us, MidCap, a lot of talk about private debt financing in the markets and private capital, and we find that most of our peers focus really on the middle market sponsor business, and it's been a hallmark of MidCap over the last several years to have a variety of incremental activities around revolvers and ABLs and life sciences. And this was a small tuck-in acquisition from PNC in terms of a franchise finance business; one, where there is a longstanding history in the sector of granular risk but very, very low losses and very, very low defaults, so a nice business. It fits in very well with what MidCap is doing.

MidCap is running at a mid-teens ROE in the last 24 months and we're steadily very, very comfortable with the growth. But I think you'll see more of these small tuck-in acquisitions where it can be accretive to MidCap, it's really a specialty lending vertical. And then the changing regulatory landscape, these opportunities are still afforded to us and again, these are the ways that we want to -- we want to stay senior, we want to have industry expertise, we want to have a long-standing experience of low losses and if there are losses, very, very high recoveries. And that's really the theme that Josh, and Martin and we've all been mentioning, about really adding value on the balance sheet in terms of the asset side because of these types of investment activities.

So things are going well with MidCap, I would suspect you know this, and we're in a high valuation environment so we do things that really are accretive to book value. This was something that was done at a level that was accretive to us, but MidCap continues to march along and you'll hear more about that next week.

## Operator

Our next question is a follow-up from the line of Bill Katz of Citi.

## Bill Katz, Analyst

Okay, thanks. Just two things I'd like to clarify. Josh, in your prepared comments, you mentioned something about leadership. I was sort of wondering if you might be able to expand a little bit on it? Obviously, you said you're going to go into more next week, but just sort of curious of your phraseology with that. And then Martin, you sort of mentioned that you might be able to link some of the dividend to FRE. I was wondering if you might give us a couple of lines in terms of how are you thinking about that?

## Josh Harris, Co-Founder, Senior Managing Director

Yeah. Look, I mean, I think that we continue to broaden our franchise and make it less dependent on small number of people and more -- much more of a broad management team. I think we're -- obviously, we've promoted Jim and Scott to Co-Presidents a couple of years ago, we promoted Anthony and Martin, to Co-COOs a year or so ago, and now we're -- and we've announced numerous promotions internally in PE and in Opportunistic Natural Resources. And then we've added Dylan Foo on the infrastructure side and -- infrastructure investing side. But what we're going to talk about next week is that we're also doing a lot on the -- what we call Enterprise Solutions, which is the infrastructure of Apollo, it's now renamed Enterprise Solutions. So we're going to announce a Head of Communications. I don't think we'll hit next week, but we're investing and very focused on technology and data, and so a series of senior hires in that area, which is very exciting for the -- both the firm and the funds. And then on the yield side, we have two or three major senior hires.

So I think that the -- and so we're going to go into all of that at Investor Day but, really, it's broadly across the firm. We're now -- our Management Committee is about 14 people, and then we have a Leadership Advisory Forum, which is more than 40 senior leaders and increasingly, we're getting a lot of depth and a lot of bench strength and we have really great people, so increasingly we want them to do more and drive the firm, and they are doing more and driving the firm.

## Martin Kelly, Chief Financial Officer

Just quickly on the second point. So Bill, I wouldn't read anything into it in terms of assumption of change, other than we would plan to underscore a minimum distribution that could be paid in any quarter.

## Josh Harris, Co-Founder, Senior Managing Director

Bill, we've been hearing from investors that setting a minimum could be beneficial and clearly, our FRE is highly predictable and durable through a cycle and growing. So I think that it's an easy thing for us to do and we're likely to do it and particularly, we don't -- and hopefully that will have some positive impact on people believing that it's durable and positively impact and we'll get a little more credit for the stock.

## Operator

Our next question is a follow-up from the line of Robert Lee of KBW.

## Robert Lee, Analyst

Great. Thanks for taking my question. I'm going to try a two-parter. First, on the Athene transaction, I'm just curious, I mean, you own 35%, you have an option to buy another 5% down the road. Plus, I'm assuming you're not going to participate in their buybacks. Were there -- and is there any kind of regulatory limit to ownership that you wouldn't want to or be able to go above? And then I'm just curious if you could give us the fee rate on dry powder?

## Martin Kelly, Chief Financial Officer

The fee rate on dry powder. So I thought it was -- the dry powder related to management fees is concentrated in credit. Credit average fee rate is sort of 65 to 70 basis points so that's probably a good proxy to use.

## Operator

Our final question will come from the line of Patrick Davitt of Autonomous Research.

## Patrick Davitt, Analyst

Hi, thanks for the follow-up. You mentioned in the release that 3Q was mostly driven by Tranquilidad, which I thought still needed regulatory approval, was that some sort of pre-distribution and there's still kind of the final closing to come?

## Martin Kelly, Chief Financial Officer

Yes. Sorry to be succinct.

## Operator

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

## Gary M. Stein, Head of Investor Relations

Great. Thanks, operator. Thanks, everyone, for joining us this morning. We look forward to connecting with you next week at Investor Day.

## Operator

Thank you, ladies and gentlemen. This does conclude today's third quarter 2019 earnings conference call. You may now disconnect and have a great day.