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Enmity Erupts Between Former Private Equity Partners Over Lucrative Insurance Units

Nearly a decade ago, Imran Siddiqui helped engineer a shrewd maneuver for buyout mogul Leon Black's Apollo Global Management LLC, one that's yielded many millions for the firm.

Then Siddiqui and Apollo parted ways — and the sparks are still flying. Money, betrayal, revenge: this breakup story has it all. Apollo has accused Siddiqui of stealing trade secrets. Siddiqui has accused Apollo of scaring off his investors. The two sides have multiple lawsuits pending.

The issue centers on the business that has become Apollo's cash cow, Athene Holding Ltd. The legal tussle has emphasized just how lucrative the insurance affiliate became for Apollo, and why Athene became the envy of the industry. Indeed, Apollo rivals Blackstone Group LP and Carlyle Group LP have since built up their own bets on insurance.

The bigger question is who ultimately bears the costs — and the risks — of this sort of insurance play. The Apollo-Athene strategy has been to extract fees upon fees associated with annuities, which are typically sold to ordinary Americans. Rivals have criticized the payouts as exorbitant and opaque: Apollo vehicles can reap as much as 70 basis points on the most hard-to-manage investments. But investors have benefited as well, with the stock prices of both companies rising in the last few years.

About 25 percent of Apollo's overall value is derived by Athene, according to Devin Ryan, an analyst for JMP Securities LLC in New York.

"That's how important Athene is," Ryan said. "And in the bigger picture, there's still a tremendous growth opportunity given the size of the insurance market and where Apollo is looking to go with the entity."

Siddiqui's partnership with Apollo began happily enough. He arrived there in 2008 after stints at Oakhill Capital Partners and Goldman Sachs Group Inc. with an idea to build an insurance company and then collect fees from managing its funds. He was welcomed into the top ranks by Black and his co-founders, and became one of Apollo's representatives on Athene's board.

Apollo co-founder Marc Rowan envisioned the firm would become something like Warren Buffett's Berkshire Hathaway Inc. By building an insurer similar to Geico or Berkshire's reinsurance business, Apollo could find a way to collect money from annuity holders then invest those assets into the credit funds, distressed debt and buyouts that it's better known for. It also provides far cheaper borrowing costs than a typical bank.

Distressed Assets

Apollo established Athene in 2009, buying distressed insurance assets that were hit by the global financial crisis and made it into one of the top fixed-annuity providers in the U.S. in less than a decade. The private equity firm took the insurer public in 2016.

"The relationship between Apollo and Athene has been very favorable for Athene," said Michelle Giordano, an analyst at Neuberger Berman, one of the insurer's largest shareholders. "Apollo not only manages assets for Athene, but they also help them source deals and look for transactions."

Athene has been a huge success for Apollo. The private equity firm generated \$318 million in revenue from Athene in 2017, according to the complaint filed in July by Siddiqui's lawyer. That accounted for almost one-quarter of all management fees paid to Apollo that year, the suit says.

It works like this: Apollo created a separate investment vehicle to oversee Athene's portfolio of about \$100 billion. The insurer allocates money to Apollo's credit and buyout funds, with Apollo collecting as much as 40 basis points as a management fee on much of the assets. That levy is

set to drop to 22.5 basis points for a large portion of the assets next year and then 15 basis points for future assets beyond the start of next year, according to a new arrangement between the firms disclosed last month.

New Fee Plan

Apollo will also charge about 6 to 70 basis points for sub-advisory work, where the private equity firm helps steer funds toward sovereign debt, collateralized-loan agreements, asset backed securities and other investments. On top of all that, Athene lends hundreds of millions of dollars to MidCap Financial, another Apollo entity, which holds funds that are not easily redeemable by investors.

It was all running pretty smoothly, but then, in mid-2017, Siddiqui and one of his associates, Stephen Cernich, struck out on their own. They set up their own insurance operation, Caldera Holdings Ltd.

Apollo sued, claiming Siddiqui had violated a non-compete agreement, and more, that he had taken confidential information when he left the firm. That suit was later settled through arbitration. Apollo released Siddiqui from the non-compete agreement and Siddiqui, in an effort to buy peace, sold a stake in Apollo funds for an eight-digit sum, according to people familiar with the deal.

Countersuit

But Apollo wasn't through. In June, it sued again, accusing Siddiqui, Cernich and Caldera of using the allegedly stolen trade secrets to undermine their bid on an insurance business. People familiar with the dispute say it was American Equity Investment Life Insurance Co., a more than \$3 billion insurer that Athene and Apollo had previously invested in.

Siddiqui fired back. In July, he sued, accusing Apollo and Athene of colluding to harm Caldera's business. People familiar with the effort said Siddiqui was on track to raise as much as \$3 billion. Instead, he lost some investors and had to re-negotiate terms with new ones, the people said.

In Siddiqui's countersuit, he claims that his former firm was on a "disparagement campaign." He's seeking at least \$1.5 billion in damages.

Apollo declined to comment, citing the ongoing litigation, as did Siddiqui's attorney, Lisa Solbakken.

The dustup has private-equity circles buzzing. Apollo remains Athene's biggest shareholder, with a 17 percent economic ownership which includes stakes held by Apollo employees. People close to Apollo joke that it's no longer a private-equity firm with an insurance unit. Rather, it's an insurance company with a private-equity division.

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