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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management 2016 second-quarter 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 will be opened for your questions. This conference call is being recorded. I would now like to turn the call over to Mr. Gary Stein, Head of Corporate Communications.

Gary Stein - *Apollo Global Management, LLC - Head of Corporate Communications*

Thanks operator. Welcome everyone. Joining me today from Apollo are Leon Black, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director, and Martin Kelly, Chief Financial Officer.

I would like to remind you that today's conference call may include forward-looking statements and projections which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements.

We will be discussing certain non-GAAP measures on this call which management believes are relevant to assess the financial performance of the business and are reconciled to GAAP figures in our second-quarter earnings presentation. Earlier this morning, we reported GAAP net income of $0.91 per share for the second quarter ended June 30, 2016. Economic net income totaled $0.98 per share during the quarter and distributable earnings to common and equivalent holders totaled $0.40 per share, $0.37 of which was declared for the quarter's distribution and will be payable to shareholders later this month. If you have any questions about any information provided within the earnings presentation or on this call, please feel free to follow up with me or Noah Gunn.

With that, I'd like to turn the call over to Leon Black, Chairman and Chief Executive Officer of Apollo Global Management.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

Thanks Gary, and good morning everyone. I'm pleased that we have the chance to speak with all of you today. This call provides us with an opportunity to highlight what we have been able to achieve at Apollo through the first half of 2016 punctuated by our strong second-quarter results, which delivered meaningful asset growth, significant capital deployment, and our most profitable quarter in nearly three years fueled by solid performance across all our businesses.

During this call, I'll first provide some high-level commentary regarding Apollo's investment activities, and then Josh will provide you with details regarding our asset growth and investment performance. Martin will conclude our prepared remarks with some brief comments regarding Apollo's financials before we take your questions.

Since founding Apollo 26 years ago, we have gone through four economic cycles, and we have demonstrated time and again that some of the best investments our funds have ever made have been when markets appear to be at their worst or more small volatile. It is during these periods of dislocation when others are often sidelined that we can leverage our integrated platform, deep industry knowledge and capital markets expertise, coupled with the long-dated nature of our fund's capital to make attractive investments that we believe will deliver meaningful returns to our investors. We tend to thrive during these periods of volatility and uncertainty, and during the second quarter, which transpired against a highly unpredictable market backdrop, we were extremely active on the investment front and we also generated strong financial results.

During the quarter, the funds we manage, together with new co-investment partnerships, deployed or committed more than $7.5 billion in aggregate investments across Apollo's platform. The vast majority of this activity was driven by our private equity business as Fund VIII has been experiencing a heightened investment pace.

While I am pleased to note this quarter marks a record for private equity deployment at Apollo, I'm even more pleased that we have continued to maintain our value-oriented discipline despite the robust pace of activity, which is one of the fundamental tenets of our investment style.

I would like to point out that a number of the deals we have recently announced or completed have been in the works for many months or even years in certain cases, and it is somewhat of a coincidence that all of these deals have gotten to the finish line at around the same time.

At a point when equity market values are at or near all-time highs and private equity deal valuations remain elevated at more than 10X enterprise value to EBITDA, the average creation multiple of Fund VIII remains at approximately 6X adjusted EBITDA, more than four turns below the industry average. At the end of June, Fund VIII was 56% committed, and if we account for the Outerwall transaction that was announced recently, the Fund is approximately 60% committed.

We are gratified the Fund has been able to acquire a number of high quality companies, particularly when considering the discipline we have maintained in an otherwise robust valuation environment. Moreover, the construction of our Fund VIII portfolio, including the low average creation multiple and what we believe to be prudent investment selection, has helped the Fund move into a carry earning position at a rather early stage, given that the companies have been in the portfolio for about one year on average.

We believe we have several competitive advantages at Apollo that have enabled us to source and complete or announce a number of deals over the last few quarters. We have a willingness to tackle complexity and create solutions to uncover value. We have a proven ability to privately place debt and preferred securities to support the financing of our Fund's transactions, and the size of Fund VIII coupled with strong, unlimited partner relations has allowed us to step up for larger transactions or investments that can be scaled over time.

To provide a bit of color on Apollo's latest private equity activity, I'd like to mention a few of our recently completed and announced transactions. The most notable completed transaction during the second quarter was the opportunistic buyout of ADT, which highlighted our ability to embrace complexity, utilize creative financing, and execute a large transaction. In a very Apollo-esque deal, the funds we manage were able to combine

ADT, the leading alarm services company, with Protection 1, an existing Fund VIII portfolio company, resulting in the largest sponsor-backed transaction so far this year with an aggregate enterprise value of approximately $15 billion.

Through our broker-dealer affiliate, we were able to provide a creative financing solution despite a very difficult backdrop earlier in the year. This included accessing sizable nontraditional sources of debt and preferred equity capital.

Other transactions completed during the second quarter included the opportunistic buyout of the Fresh Market, a high-end specialty grocery retailer, NKBM, one of Slovenia's leading financial institutions, and follow-on investments in a couple of existing portfolio companies. In addition to these completed transactions, several new investments were announced during the second quarter with an aggregate equity commitment of $1.8 billion. The largest announced transaction was the buyout of Diamond Resorts International, which manages a leading network of more than 420 vacation destinations across six continents.

In addition, during the quarter, funds managed by Apollo announced the simultaneous acquisitions of two listing services businesses, AmQuip and Maxim Crane. This transaction just closed last week and it serves as a great example of our willingness to embrace complexity, given the challenges of acquiring two different businesses from two sellers at the same time. Beyond these deals, we have a very robust pipeline of potential new investment opportunities that could continue to propel the commitment level of Fund VIII forward in the near to medium term.

Before I turn the call over to Josh, I'd just like to emphasize how well positioned I believe the Apollo platform is today. I've already discussed our private equity business and I'd also like to highlight our credit platform.

As one of the world's leading alternative investment managers, we are poised to benefit from a number of secular tailwinds, including the deleveraging of the banks and re-regulation of financial institutions, coupled with persistently low rates that are forcing institutional and retail investors alike to scour the globe for yield. All of these fundamental drivers play to our strengths at Apollo, and over the last decade, we have created what we believe is the largest and most diverse alternative credit platform in the world with $134 billion of assets under management, which is up more than $20 billion since this time last year.

Given the breadth and depth of our credit business, we are able to offer investors a variety of investment solutions across asset classes and the risk-reward spectrum, ranging from yield oriented solutions with mid-single-digit returns all the way up to opportunistic solutions that can offer mid to high teens types of returns. Most importantly, we have built an extraordinary team at Apollo with an extremely deep bench of talent throughout the firm.

With that, I'd like to now turn the call over to Josh.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

Thanks Leon. During my remarks, I'd like to touch on two important topics, growth and investment performance.

First, with respect to asset growth and fundraising, during the second quarter, we generated inflows of more than $16 billion, which included $8 billion of inflows from a diverse set of investment solutions and mandates across all of our business segments and $8 billion of inflows associated with Apollo Asset Management Europe, or AAME, which Martin will explain in a moment.

Within private equity, we generated $2.5 billion of inflows from equity co-investment capital to help finance the ADT transaction, and we also raised an additional $200 million for our second natural resources fund during the second quarter. Just last week, we closed on an additional $500 million, bringing total commitments for ANRP(2), the natural resource fund, to $2.7 billion, and fundraising remains underway. This is roughly 50% greater than our last fund at this point.

Within credit, we had inflows of $4.6 billion during the quarter, excluding the aforementioned AAME assets, and notable drivers included $2.3 billion of incremental new assets related to Athene, which grew its total assets to $68 billion during the quarter, up from nearly $66 billion as of March. This growth resulted from new flow business from reinsurance clients as well as the successful launch of new retail products.

Our credit inflows also included an additional $800 million for mid-cap, our middle-market direct origination platform, bringing total assets under management to nearly $7 billion there. Based on its current capital base, mid-cap now has the capacity to grow its assets to approximately $10 billion as it originates new middle-market loans.

Newer add-on managed account commitments totaled $400 million during the quarter and our pipeline remains strong as we are in active dialogue for additional mandates. As of June, we managed more than $18 billion of AUM for dedicated strategic managed accounts. We raised an additional $200 million for our total return strategy during the quarter. To date, we have been awarded mandates totaling more than $1 billion for this strategy, and there are additional investor allocations in the pipe.

Total return is then to take advantage of the sourcing and underwriting capabilities of the entire liquid end of Apollo's credit business, and it is becoming an increasingly important strategic platform.

In total return, we believe we have been able to create a superior and differentiated product in the marketplace than when compared to traditional fixed income investment, targets greater returns and lower duration in exchange for modestly less liquidity. Since its inception, total return has significantly outperformed traditional high-yield and bank loan mandates. It has also provided our clients with downside protection during periods of market volatility.

Lastly, as we noted last quarter, we commenced the fundraising process for the third vintage in our financial credit investments fund series, a credit drive-down product which focuses on insurance-linked securities. And I'm happy to note that we held a first closing of approximately $400 million during the second quarter.

Now, turning briefly our investment performance, the funds we manage delivered solid results across each of our businesses during the quarter with private equity up 3.1%, credit up 3.7%, and real estate up 2.2%. The 3.1% appreciation in the private equity funds we manage was driven by strong performance among our funds' private portfolio company holdings, public debt positions as well as energy investments.

In a few minutes, Martin will provide some additional details regarding our private equity funds, but I would like to call your attention to Fund VIII's performance in the quarter. Fund VIII is our $18.4 billion, 2013 vintage fund that is actively deploying capital and already performing well, as Leon noted. In fact, even though Fund VIII has been investing for about three years, and its current investments only have an average holding period of approximately one year, the fund appreciated by approximately 8% and crossed its 8% preferable term hurdle during the second quarter, enabling the fund to accrue carry for the first time. This is a significant milestone for a 2013 vintage fund, particularly given the earnings power it represents over time.

In credit, the investment performance of the funds we manage was also quite strong during the quarter, up 3.7% on a gross basis and up 3.3% on a net basis, excluding the non-sub advised assets of Athene. If we look at some of the core strategies within our credit business, our drawdown funds generated gross returns of 6.4% during the quarter bolstered by investments held in our European principal finance business as well as a rebound within the energy sector. Our liquid performing funds, which represent approximately a third of our credit assets, also performed well and delivered a 3% return during the quarter.

With that, I will turn it over to Martin for some comments on our financial results.

Martin Kelly - *Apollo Global Management, LLC - CFO*

Thanks Josh, and good morning again everyone.

Starting with our economic earnings for the quarter, the $395 million, or $0.98 per share, of total ENI in the quarter was driven by strong performance in our management business and even stronger performance in our incentive business.

In the management business, we earned $137 million of economic income, up from $82 million in the prior quarter. The increase was driven by rising management business revenues, principally resulting from fees earned in connection with sizable co-invest activity. The increase in management business revenue offset higher management business expenses, which rose sequentially primarily due to an increase in non-compensation related expenses.

In the incentive business, we earned $322 million of economic income, representing a significant rebound from an economic loss in the prior quarter. The sequential increase was driven by two primary factors.

First, the positive fund performance across businesses Josh mentioned drove strong carried interest income across several funds, which included Fund VIII crossing its preferred return threshold and earning 80/20 catch-up carry. Approximately $87 million, or nearly 45% of the quarter's total net carry income, was generated by Fund VIII.

At the end of June, Fund VIII had the potential to earn approximately $30 million more in net catch-up before reverting to the conventional 20% carry accrual.

Fund VIII is in the somewhat unique position of being carry generating while still deploying a considerable amount of its capital. For this reason and given the dynamics of marching forward in time to keep pace with the preferred return hurdle, as well as uncertain future portfolio marks, it's possible that the fund's net IRR could fluctuate within or out of catch-up carry territory over the coming quarters.

The other primary driver of incentive business economic income during the quarter was the increase in the valuation of Athene. This valuation was driven by significant business growth in Athene's reinsurance and retail channels and continued progress towards its initial public offering. In addition, and in connection with the process of preparing for Athene's IPO, Athene received feedback from a range of sources which supported our view of an increase in value relating to recent developments at Athene. Upon adjusting for these recent developments, Athene's fair value increased by approximately 20%. This resulted in a $101 million unrealized gain within other income as well as $60 million of unrealized net carry interest income from AAA and related accounts driving an aggregate contribution to second quarter ENI of approximately $0.40 per share.

Across the $17 billion of private equity fund capital that we currently have in the ground, only $2.5 billion or 15% of our invested capital is in public equity securities. And so although the value of these public equity securities declined in this quarter, the performance of these holdings is not necessarily representative of the broader performance of our private equity funds.

As Josh touched on earlier, investment performance in our credit business was also strong during the quarter, which in turn drove a significant amount of carry and led to an increase in carry generating AUM. The carry income was primarily generated from our opportunistic drawdown funds as well as our credit hedge funds.

Lastly, on the incentive business, there was a discretionary incentive full competition accrual in the quarter of $13 million within realized profit-sharing expense, which drove an elevated profit share ratio in the quarter. As a reminder, the Firm takes a long-term view with respect to the discretionary components of incentive compensation, and will monitor its overall level relative to the Firm's incentive-based earnings over an extended period of time.

With regard to our cash distribution, the $0.37 we declared today was driven by the relative cash flow stability of the management business and the upside it can create by leveraging the Firm's integrated platform as it relates to sourcing, financing and executing sizable transactions.

Earlier on the call, Josh described some of our inflows during the quarter. Included within that figure is approximately $8 billion of assets related to what we refer to as Apollo Asset Management Europe, or AAME. We have been building out AAME over the past year as a centralized investment and risk management capability for regulated balance sheets in Europe, including certain of the insurance and banking platforms already owned by the funds we manage. For the time being, AAME is primarily operating as a utility, providing services on either a cost or loan margin basis. While the profitability of this venture is currently more limited, we believe this will be more accretive over time given the opportunities we see across Europe to acquire other regulated balance sheets and the value we believe can be created through more efficient management.

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

The floor is now open for your questions. (Operator Instructions). Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Thanks. Good morning everyone. Maybe starting on AAME as you just touched on, I'm just trying to think about your plan to market that strategy. It seems pretty differentiated. And maybe if you can, I know it's early days and there's not a big contribution, but can you just help us think about the potential market for that business, or just the market share that you could take from these insurance companies?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I'll take a crack. It's Josh. It's a huge market. You're talking about kind of all of the existing insurance company liabilities, and for that matter non-insurance company liabilities, bank liabilities, in Europe. So it's trillions of dollars. So the market share is really small; it's infinitesimal. There's not really a market share issue.

In terms of how we are going to market it, I would say that we continue to sort of study that and think about it, and there are certainly multiple ways we could go. Certainly if you look at the Athene model, the mid-cap model, the permanent capital model, that might be a way that we would orient or we might raise LT capital directly. But we are continuing to work that out. But so far there's a lot of opportunity. The opportunity comes from -- there are zero cost liabilities in Europe. And so if you know how to manage the assets, you can make -- it's a great time to try and accumulate those liabilities.

Devin Ryan - *JMP Securities - Analyst*

Okay. Great. That's helpful. And then just on Fund VIII, great to see it moving to carry generating. If you can give any detail just around were there specific investments that have been driving the performance where you've had kind of a couple of nice quarters, and is it fundamentals improving within those businesses that's driving the marks, or are the marks being kind of pulled up by something going on on the public comparable side?

Martin Kelly - *Apollo Global Management, LLC - CFO*

It's Martin. It's a general seasoning of money that's in the ground across the investments that we've made. Across PE more broadly than just Fund VIII, we benefited from energy markups during the quarter and that had an effect on Fund VIII as well. But it was the contribution of energy as it relates to Fund VIII was less pronounced than it was more broadly across the fee portfolio.

Devin Ryan - *JMP Securities - Analyst*

Okay, got it. I'll hop back in the queue.

Martin Kelly - *Apollo Global Management, LLC - CFO*

I can hit the business. The underlying business of the companies in the portfolio is sort of trending to what we had planned. Both revenues and EBITDA are both up to single-digit, low single-digit, on an LTM basis, 12 months over 12 months. But it's still early days. The companies -- each company has its own situation. Each is being managed according to its own plan. It's hard to sort of benchmark marks against a broad index, but we feel good about the construction of the portfolio.

Devin Ryan - *JMP Securities - Analyst*

Okay, great. Thanks for that color and congrats on the really strong quarter.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

Just to give you EBITDA for the non-energy stuff quarter-on-quarter, year-on-year, so is up about 5% across our private equity fund. That gives you kind of a sense of why, on aggregate, we are realizing, starting to realize value.

Devin Ryan - *JMP Securities - Analyst*

Makes sense. Thank you.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks guys. Good morning. So, it was nice to see the $6 billion of capital deployed in the quarter, and we saw some fairly sizable transactions with ADT and Fresh Market. But Apollo is one of the few PE shops we are actually seeing a high level of capital deployment. And some of your peers are complaining about high public equity prices and a slowing global economy. So how do you guys respond to this contra-trend and really that we see an increase in your pace of investments here in PE?

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

It's Leon. I think we respond to actions and performance. The proof has been in the pudding. Basically, we have put a lot of capital to work, and we also have a robust pipeline today of deals that we like. There's no assurance that they will be executed, but right now, we are going at a very nice pace. We hope that will continue.

What we are most pleased at is the fact that we are doing it in an Apollo-esque way. We understand that some of our peers feel it's a high-priced environment. We've always felt it was a high-priced environment, and that's how we have always operated, by dealing with complexity, by dealing with distress, by dealing -- going down roads others don't. And that's why not only have we put a lot of capital to work, but we've put it to work at four multiples lower than what the average of our peers are doing.

So basically I think our value oriented mantra has worked for us and continues to work. And our whole team and culture here has been attuned to doing deals that are outside of what our peers are doing and what the rest of the market is doing.

Just to remind you all, we probably do -- over our 26-year period, about a third of our transactions have been in distress during volatile times. The entry there has been at a five multiple. We do a lot more complex carveouts than anybody else. Our entry there is at about a six multiple. And then the nine industries that we cover in-depth here with our 360 professional investors across the Apollo platform will all help each other. We are willing to go a little higher, maybe to 7.5, but that's why, at the end of the day, we've been able to find things and keep to our culture of investing at much lower multiples than what our peers are doing.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. Thank you Leon. And just as my follow-up, so we finally had some clarity in the second quarter on the Department of Labor role. I'm sure you guys probably were disappointed on the one point but the role ended up including indexed annuities. I know there are several suits out there and insurers are involved, but if the role is implemented as is in April 2017, how should we think about the impact to Athene, which I believe is one of the largest underwriters of indexed annuities in the US?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

You are right in terms of your comments with respect to their presence in the annuity space. Generally speaking, it's tough for us to comment on Athene's business given the fact that they've got their S1 on file and they are in a quiet period. I would note that they did hold an investor update call back in June, and in that call, they presented a slide talking about the DOL. You can find that on the AAA website.

The one thing I would make is they did show a pie chart there that indicated that only 34% of their new flows in the first quarter of 2016 were subject to the DOL. So, I think their exposure there is coming down over time.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

I'd actually like to add to my long-winded list of the last answer because I reflected on the question more. I think the other things we have going for us, frankly, is we have a very large fund with the backing of great supporters, which allows us to do larger deals like ADT. It is also great to have all those LPs and supporters because not only are we able to commit a lot of capital, but we are able to offer co-invest to our LP constituency.

Finally, just going to our integrated platform, I think we are able to be creative on financing when times are tough in the credit markets. So, those are part of the secret sauce as to why I think we've been able to generate a lot of deal flow and why we have a robust pipeline now.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thank you.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks guys. Martin, first, just on the fee related earnings, I guess just the outlook. When I think about the transaction -- level of transaction fees, it seems like, from a deployment coinvestment, the outlook is still pretty active. I know it's something that's tough to forecast. And then also just given you guys' comments on Fund VIII at 60%, so when we think about going into 2017, any potential time on how we should be thinking about fundraising heading into next year?

Martin Kelly - *Apollo Global Management, LLC - CFO*

Sure, I'll take the first question, Mike, and then I'll hand over to Josh for the second. Yes, I think, on the fee related earnings comment, we've gone from a period of time when we had relatively low deployment and not much co-invest to a more robust deployment environment. And we earned -- we can earn fees in a couple of different ways when we take in co-invest capital and we do financings that are created when we place the debt.

So, in the case of ADT, we owned a transaction fee and we also owned a debt replacement fee. I think it is certainly reasonable to expect that we can expect to earn more of those fees. But it's dependent on, A, getting deals done, and B, them being large enough to sort of warrant the use of co-invest capital. So I think there should be more, but it's difficult to predict on a quarter-by-quarter basis.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

And on the fund, as we noted, the fund was approximately 56% committed at the end of the second quarter, and factoring in recent deal activity, we are 60% committed at this point, presuming those deals close. We've been funds to invest for about three years, so it's about 20% a year. Typically, private equity funds begin the fundraising process for success of funds when they cross the 70% threshold, but obviously it's difficult to predict exactly when that will be.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. And then just as a follow-up, I guess just on the Athene gain in the quarter, I just wondered -- and I know you mentioned a couple of things that were more maybe specific to Athene, but when we think about like the kind of DOL aspect, you guys mentioned growth, and I think when we look at the comp group, you didn't see much of a move. So I just wanted to maybe flesh out or understand how to be thinking about maybe what happened in the quarter, but probably more importantly just going forward.

Martin Kelly - *Apollo Global Management, LLC - CFO*

Sure. I guess the events in the quarter -- the new management team is in place and doing well. The organic growth in the business across each of the channels is stronger than plan, and the readiness for the IPO is progressing nicely sort of with the registration choices and in terms of internal readiness. And so our view is and Athene's view is that a premium to the comps that we identified is warranted, and that's being supported by advice that we've had from outside advisors. So when you sort of translate that into numbers, it gets us back to a 1.2 times multiple on book, and around 15% premium to the comp set. And coincidentally, the 1.2 times multiple is where capital was raised two years ago.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Good morning. First, on AAME, I know you've given some description. Could you further flesh that out? I'm still a little uncertain about what AAME is. And then maybe in those comments, can you talk about (technical difficulty) really providing a service for a fee, or how does it make money? I assume it's not a carry fund. Maybe it is a carry fund. Anyway, that's sort of number one. Thanks.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

It's an entity that we've set up. So we have various insurance companies and banks in and around our platform and various funds. And it's an entity that we've set up, so each of -- when -- one of the ways we add value to those companies is rather than each of them having their own specific team, in certain cases it made sense for them -- for us to consolidate all of those teams and come up with a new, better team that's integrated and centralized, and in doing that both save costs, but at the same time allow for, in our opinion, better and more thoughtful investment performance versus each smaller entity having a specific team.

And so the AAME, if you will, is an entity that's set up to manage certain assets of our European investments where it's logical and makes sense, and at the same time that capability both benefits our investors, but at the same time allows us to make more thoughtful acquisitions of other assets, as well as possibly manage incremental capital outside our investor pools. So, that's AAME in a nutshell.

Ken Worthington - *JPMorgan - Analyst*

Okay. So again there --

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

And I guess I would say, at the outset, the thought was that AAME would mostly be servicing our existing portfolio companies, and that's why we are saying it would be at cost or at a very low margin. But the hope over time is it would also engage in incremental activity that could create value on new investments that may or may not be portfolio investments. And on those, there could be meaningful fee increments to the entity.

Ken Worthington - *JPMorgan - Analyst*

Awesome. Was that mean to the other end, so that was trying to go towards new. You get that perfectly. Thank you. And then on -- let's see -- I don't know if you can answer this, but like on Athene, you mentioned that the assets were up bunch. There was new business, material business growth. You mentioned some new products. Could you flesh that out again? I know they are in the registration period, so that may not be possible, but try anyway.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

It's tough for us to do, Ken, as you pointed out, given the quiet period and also, importantly, Athene hasn't reported their own Q2 results yet. So I think, until they do, that's tough for us to comment. You can certainly look at their Q1 results relative to last year, and you will see strong growth in reinsurance flows and you'll see strong growth in new sales driven by new products that they released earlier this year.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

In retail. If you're jogging on your -- in your morning run in front of Bloomberg, you will see a fair amount of advertising for Athene in an approach to retail which is new for them which is working so far.

Ken Worthington - *JPMorgan - Analyst*

Excellent, okay, thank you. And then just maybe lastly on mid-cap raise more capital. Based on the business environment and conditions, how quickly can they deploy what you raise? I think you said $800 million if I heard correctly. Is that an amount of capital given the leverage that can last a year, two years, six months? How long until they possibly can work through that capital?

Martin Kelly - *Apollo Global Management, LLC - CFO*

I'll just frame it down to the first six months of the year. They originate loans and then syndicate down a portion to what they call a hold level. That's been about $2 billion on a year-to-date basis, and then the runoff on the book has been about [$1 billion]. So they're sort of adding at two times the run off. And if you annualize it, that's about $2 billion net growth per year.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. That helps. Thank you very much.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

Yes, I think we said they are at $7 billion of AUM, and we said in the comments that they could go to approximately $10 billion based on current market conditions, so that would be between one and two years of growth.

Ken Worthington - *JPMorgan - Analyst*

Okay. Awesome. Thank you.

Operator

Glenn Schorr, Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

Thanks. Just curious, I wanted to flesh out your comments on -- related to the $80 million or so gain in unrealized gain on credit. I think you mentioned European principal finance, rebound in energy and liquid performing funds, but I'm curious what asset classes may be underneath. And I'm trying to get at how much of the rebound in energy prices, how much of it is just you bought well and credits improved in the quarter? That would be helpful. Thanks.

Martin Kelly - *Apollo Global Management, LLC - CFO*

I think energy is a de minimis component of that plan, most of it in dollars. About half the total dollars were coming out of EPF, which itself is driven largely by European real estate positions. And then a portion came out of our structured credit funds, Script III, which actually came into carry this quarter and created some nice carry. And the rest was sort of sprinkled across the liquid performing parts of the business, including the credit fund and other sort of related credit hedge funds.

Glenn Schorr - *Evercore ISI - Analyst*

Excellent. That's good. And then just to follow-up, in your capital deployment comment within credit, you mentioned NPLs and longevity assets. Just curious if you could give a little more color on each, where they are coming from, the types of assets. Is it a bank balance sheet downsizing and what kind of expected returns therein?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

Yes, it's coming across like covering our entire platform, so I think it's pretty hard to answer that question the way you framed it. It's just coming across nonperforming loans; it's coming across its incremental buys in our performing credit business, which is yield. As I think you are aware, the second quarter experienced a bunch of volatility. And it's coming across some of our opportunistic businesses. So, it's sort of like if you just look at our platform, it is pretty broad.

Glenn Schorr - *Evercore ISI - Analyst*

Okay. And you mentioned just the volatility in the quarter provided some great opportunities that you are always ready to jump on. Should we keep our expectations at bay, barring another crazy event in the quarter? In other words, would you consider this an exceptional capital deployment environment in the second quarter?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I wouldn't say it was exceptional. I think that it was strong. And we still have a robust pipeline. I think it's very difficult. The problem is it's very difficult to predict the ebb and the flow of the investment business. Certainly, when there's volatility, it's helpful. When there's pull-back, it's helpful. But even if there's not pull-back, I think we've demonstrated the ability to continue to deploy. Like as Leon said, in private equity, we are 60% invested after three years in what is possibly one of the most aggressively priced environments that I remember in my 26 years in the business, and yet our platform is able to continue to churn out deal flow. And certainly when there is a pull-back and a financing market shut-down, that helps, but we are just doing it quarter after quarter. And then, in credit, certainly it helps when there's a volatility. But between our structure credit business and our yield business and total return, the long-term trends, the deleveraging of the banks, the financial sector, we've positioned ourselves to be in products where we don't need volatility to deploy it. But it was a great -- it was a good quarter but I wouldn't say it was an exceptional quarter. I think we are just continuing to chug away.

Glenn Schorr - *Evercore ISI - Analyst*

Okay, appreciate that. Thanks.

Operator

(Operator Instructions). Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Good morning everyone. Just kind of curious on maybe looking at fundraising a bit. I'm interested in maybe trying to get updated on some of the drawdown in PE strategies you're fundraising for. Obviously you mentioned FCI IV. You mentioned ANRP is ongoing. I mean if I look at them, those look like EPF is pretty much fully invested, at least EPF II. I'm not sure if you're raising another credit opportunity fund because I know III had some performance issues, but that's pretty much invested. So can you maybe update us on some of the fundraising initiatives and drawdown in PE land?

Martin Kelly - *Apollo Global Management, LLC - CFO*

Sure. It' Martin. I'll start and I'll hand it to Josh. In PE, it's ANRP(2), the second natural resources fund, and it's special situations which we -- which is small, but we think potentially important over time for us, and we touched on that last quarter.

In credit, it's the third generation of some of our sort of what we call our flagship funds, FCI III, which is underway with the first close. EPF III is in fundraising now, has not had a first closing, will likely get one done by year-end, but unlikely to be in Q3. And then it's other sort of what you would expect across the platform, total return, CLOs, continued managed accounts.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I'd say the sort of I think Martin has identified the sort of flagship in drawdown funds, and then you've got certainly some of the products that are perpetually open. The hedge fund has been performing incredibly well. And we are -- we are starting to see some -- notwithstanding some of the negative bias towards hedge fund products, our performance is really setting us apart. We are starting to see some traction there.

I'd say that the total return fund where we can add a bunch of return to BB, BBB crossover type product and pull in duration for a small amount of incremental lockup, quarterly lockup, versus the daily lockup for most mutual funds, that's also starting to resonate with investors and the performance has been quite good there.

And so what we're trying to do is set up a series of products that allow -- and then our yield business starts -- overall yield business where we just are constantly taking in money and growing, in our CLO business as well, we're trying to set up a series of products that allow us to not just be dependent on the next big drawdown even though those certainly -- our drawdown funds, our flagship funds are quite unique in terms of how they perform, and they're big pops, if you will. They propel our growth forward. But we are trying to set up a series of these other legs to allow us to just continually grow our assets. And I think we are getting some traction there.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

Obviously, we'd be remiss to underscore Fund IX in PE is looming somewhere on the horizon although, at 60% committed and we are at 70%, you can go out and raise it, but we can't predict with any exactitude when that will be, but somewhere.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

The last thing I would say, the managed account business also continues to chug along. So as I think we mentioned in the comments, we are at about $18 billion there, and those come in $400 million chunks, $200 million chunks, $700 million chunks. And so, again, they are a little lumpy but we continue to land those. And we have a nice pipeline there, as I mentioned in my remarks.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great. And I did have a follow-up going back to AAME. I guess there's been a lot of questions on the call today, but I guess it strikes me that's pretty similar to what you do for Athene here in the States, the services, maybe the types of services you're providing. And you do charge -- you know, Athene does pay whatever the number is in basis points as opposed to making it kind of more utility-like, at least at this point, in Europe. Is that more because of just the nature of the companies you're servicing being portfolio companies versus something that you helped start up with Athene?

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

I think you hit it exactly, but it's really starting out with existing portfolio companies. But over time, it should morph to hopefully more like an Athene structure.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great. Thanks for taking my questions.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Good morning. A question, maybe it's a little early, but as we think about the realizations from Fund VIII just given the improved performance and the pretty quick pace of deployment, at what point in time do you think you could start to begin to exit some of the positions and I guess crystallizing and monetizing the carry?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

Yes, it gets unpredictable, and certainly -- and the investments are a year old on average. And I said that we are always looking -- if the markets continue to be robust and the thing continues to mature, you are certainly going to start to see some of that. But it's really hard to be specific there.

Alex Blostein - *Goldman Sachs - Analyst*

Would it be reasonable to assume, if you do start to see faster realizations and the fund is still in an investment period, you guys would just over-deploy it as opposed to kind of return it?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

The way the funds work is you can't really make that decision in that way. There is an 18-month recycle provision, which sort of more than allows kind of you recycle the capital. If you realize an investment within the context of 18 months and you do -- at that point, you would realize carrying profit. So certainly when you sell an investment at a gain, you realize you're carrying a profit, that gets distributed. That gets realized. So I think, having said that, certainly if it's within 18 months, it's recycled. If it's after 18 months, it is permanently sold and it goes out of the capital base, and that's the way it works.

Alex Blostein - *Goldman Sachs - Analyst*

Got you. And then just a quick numbers question around FRE. I'm not sure if I missed it but obviously a very elevated level of transaction advisory fees and expenses a little bit elevated as well. If we were to exclude that activity, and understanding it could repeat itself but probably a little bit more than usual, so what's kind of a run rate FRE that you guys stand at heading into the third quarter?

Martin Kelly - *Apollo Global Management, LLC - CFO*

So, I would just take the transaction. If you simply want to back out the transaction fees, just back out the difference between Q2 and Q1.

Alex Blostein - *Goldman Sachs - Analyst*

Got it, okay. But the expense run rate is kind of is what it is, there's nothing unusual there?

Martin Kelly - *Apollo Global Management, LLC - CFO*

Comp quarter-on-quarter was flat, and I would expect that will, obviously subject to your own compositions, that will be in the area of where it is now for the rest of the year.

We have not made many hiring decisions this year. Our headcount is up very modestly. And so while we had a bit of a step-up in comp from last year into this year, I think the run rate from here on out is pretty predictable.

And then on non-comp, we had a couple of not individually significant but sort of cumulatively, they increased their run rate going into Q2. So, that should step down a bit again next quarter. But all of this sort of underpins our expectation to pay $1.00 a share for the management business.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

In other words, certainly transaction fees are unpredictable, but they happen. And the reality is we will pay them out. When we are talking about a dollar a share, we are excluding the ongoing transaction fees. So you have upside from those which you are seeing in this quarter. You also have upside certainly from the incentive income, which is largely not included, which is not included -- largely not included in the $1.00 a share. So I think all those things are upside, but because of the focus on quarterly performance, we don't include them. Now, having said that, I think over time they certainly have repeated and we would expect them to repeat.

Alex Blostein - *Goldman Sachs - Analyst*

Awesome. Thanks.

Operator

Chris Kotowski, Oppenheimer & Company.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

I wonder, can you give us the breakdown on ADT, how much came from Fund VIII and how much came from co-invest? And then are your economics on the co-invest primarily the transaction fees, or do you have carry rights retained there too?

Martin Kelly - *Apollo Global Management, LLC - CFO*

So, we don't have carry on that capital. And then the transaction fee, we charge a placement fee on the debt, and that was 30% of the total, thereabouts, and the rest was a transaction fee charged on the value of the acquired business apportioned to the amount of capital that came in (inaudible).

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Did you give us a breakdown between what's from Fund VIII and what's from co-invest?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

The equity breakdown, we said there was $2.5 billion of co-invest that was included in the implodes this quarter, and you can assume about $1 billion from our funds.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. Thanks. That's it for me.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

A question for maybe Josh, and early on, but I know it's always hard to answer, but just to get your sort of view on where we are in the credit cycle in terms of the deployment in Fund VIII as both of you guys mentioned at a fixed multiple. Did you ever think you'd be able to get that type of entry multiple in this type of highly valued environment? And then as we move forward from here and we do deploy more in Fund VIII, can you envision raising another fund ahead of the next credit cycle, or is that just too (technical difficulty)?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I'll start, and then Leon can add. Look. I think it's -- the credit spreads and levels are not as what you would -- not very exciting. They are at kind of like all-time lows. But what's driving that is zero interest rates, and what's driving that is quantitative easing around the world.

So the real question you're asking is what's going to happen? When are the central banks going to raise rates? And we don't really have a crystal ball here, but I would say I don't really see that happening. As much as I don't like the levels of credit spreads, I think we all need to just be accustomed to the fact that we could be in a zero rate environment for a prolonged period of time. I think a lot of that is going to depend on kind of how the economies themselves do. And that's unpredictable, but I think you have to go into this kind of being cautious and trying to find ways to deploy capital where, even if things go wrong and rates go up and the credit cycle turns against you, you still are okay and make some money. But I think my personal base case is that this could go on for a period of time. And so that's really what you're asking.

In terms of your second question on PE, look, I think we've been honing -- for 25 years now, 26 years, we've been working hard to hone our craft as practitioners of private equity in terms of finding deals that other people can't do. And I think certainly we are getting better at it in terms of being able to source transactions that don't seem to be consistent with the current valuation environment, whether that be because we are arranging financings that other people can't, whether that be buying into distressed debts, whether it be corporate carveouts. And interestingly, more recently, as you guys have seen, we found some public companies where we each have a different view than the market.

And so I guess my honest answer would be I am actually quite proud of the job the team has done in a really tough environment. And we are quite differentiated, and you hear it. We listen to the other calls and we are aware that other people are saying we are not finding a lot of deals and the market is overvalued and so forth and so on. But you can just look at the multiples we are paying and the reality is that's not the case for us. So we are quite differentiated from what you are seeing out there. And I'm very proud of the model and the team and the platform that we've built to be able to do it.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

Just to underscore Josh's last point, you look at the numbers on our last four PE funds going back to 2000, with each fund, we've actually widened by one multiple the difference between us and our peers in terms of putting capital to work. So Fund V, we are one multiple better, Fund VI two multiples, Fund VII three multiples, and now Fund VIII is a difference of four multiples versus the average in terms of our deployment of capital. I don't know how long we can keep that trend going into five and six and seven times, but just going to Josh's point, that there's been an evolution of honing the skills that our whole team is imbued with that culture. So, we are gratified. I think our returns have been first in class in PE, but what I am more proud of is that we've gotten them by taking less risk and paying lower multiples.

Brian Bedell - *Deutsche Bank - Analyst*

That's great perspective. Maybe just to switch gears, Josh, you talked about the total return product in the liquid performing credit area. Can you talk about the fundraising market opportunity there, say, over the next intermediate long-term, maybe two to three years in terms of which marketplaces you think you have an opportunity to really gain substantial market share?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I think it's the core pension fund and sovereign wealth funds that we are typically in dialogue with and that are supporting most of our products, but I think it's also retail. And again, it's hard to make -- making a safe six to eight is actually quite -- and taking less risk in this environment when you have the ability -- if you buy a BB or BBB, let's say you buy a BBB high-yield investment, you're going to make four, and you're going to have duration. So if you can go to someone and say, okay, instead of four, I'll give you six to eight, I'll pull in duration so in case the central banks do decide to raise rates, which we all inevitably worry about and have to think about, you're protected because you're floating rate, but instead of daily liquidity, you need to give me quarterly liquidity. That's quite attractive to our core client. It's also quite attractive to high net worth individuals and other individuals that don't have a lot of places to put their money. And so we think long-line it's going to be a very large product for us. It's performing quite well. We've now been at it for three years and what we found is there's lots of boxes to check with the track records and three years of performance and this and that. And we are checking all of those boxes at the tail end of that and we are starting to see the potential investor demand open up, having gotten through all that and the performance is quite good. So it's just a product that we think is better for our investors, and better for retail, and it's quite differentiated versus what's out there. And we are at a size where we can play in off-the-run credit differently than some of the very large random players who are just multiples and multiples the size of us. And they just can't play in that area because they are too big. And so this is an area that we think we can take some market share.

Brian Bedell - *Deutsche Bank - Analyst*

And what is your penetration in retail right now? Is there a strategy to get deeper in the warehouses?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

I think what we've been saying pretty much repeatedly, we are investing in the marketing resources we need to attack retail in multiple ways. Certainly, the wire houses are part of it. Certainly issuing -- in some cases having permanent capital vehicles in public markets, and certainly the non-wire houses. So I think we are doing all of that, and it's just great -- we've always been great manufacturers of return. Increasingly, we are just now making those products available and suitable for retail, which is different.

And then obviously you are aware of the sub advisory stuff that we've done that we've announced between Opco and Waddell & Reed and things. So I think that's another way. But at the end of the day, all of these ways, there's not one magic bullet, it's building up the process and the people and the systems to be able to service the retail client base and communicate with them effectively.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Thanks for the color.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thanks. So Fund VIII clearly is going to be a big driver of ENI while it's in this 80/20 catch up and beyond. When we think about marking that, should we think about any one index or industry concentration or some broad kind of weighted index of credit energy, the MSCI and the S&P, in trying to kind of look at how that moves each quarter?

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

It's really hard to answer that. The answer is if you look at all of our historic returns, we've crushed the indexes. It's not even close. Having said that, so you can look at our historic returns in PE and they are in that mid-20s% net and in the mid-30s% to high 30s% gross. Having said that, obviously we are not saying you should model that. Certainly, we underwrite to a 20% gross return. We've exceeded that.

And then I guess you can look at historical private equity benchmark returns, but the reality of private equity is that the top-quartile performers do way better than the average performers. That's just the reality of the numbers. So you guys can look at all the data and so forth, and if you want to look at indexes, look at the top-quartile private equity performers, but the reality is we've been better than that. So I don't know how to really predict it other than to give you all the data that's available, as I just did, and have you just consult it.

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

Just to clarify, we are underwriting at 20% net, 25% gross.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay. And I meant more kind of like directionally quarter-to-quarter, like what -- like if oil moves 20% in a quarter, is that going to move it a lot, or if credit moves 5% in a quarter, is that going to move it a lot than over the long run? I understand what you mean over the long run.

Josh Harris - *Apollo Global Management, LLC - Co-Founder, Senior Managing Director*

First of all, we don't have a big -- we have a very small -- we have what is it? 5%? 5% in energy. So we are under-weighted in energy right now. And so it's not really -- energy certainly moves it up and down, but it's not any different than any of the other sectors we are in. And if you look at all the investments, they are all -- it's pretty broad. It's pretty broad. It's becoming a bit less cyclical, truthfully, than our history. So it's really hard.

What I would do is obviously you almost have to look at the major investments as best you can and try to figure out how comparable companies are doing. If you want to look at -- look, the reality is that the S&P 500 on a quarterly basis does move up and down some of our evaluation. It's really hard to get away from that. But that obviously does and in the long run, it hasn't been consistent with our performance. We've done way better than that.

Operator

Michael Cyprys, Morgan Stanley.

Nick Stelzner - *Morgan Stanley - Analyst*

Good morning. This is Nick Stelzner filling in for Mike Cyprys. Just a quick question on the $10 billion of AUM with future management fee potential. Can you elaborate on the funds and strategies those represent? And is it just deployment that will turn on the fees? And I guess how are you thinking about the time frame and type of environment needed to put that to work and see those fees turn on?

Martin Kelly - *Apollo Global Management, LLC - CFO*

Sure. It's almost exclusively within our credit business. And a decent amount of that is from managed accounts where the money is being raised, the money needs to be put to work. I don't think there's any -- certainly nothing of significance that's sort of a fund that's waiting to switch on. It's really based on deployment. And then you can look at the deployment in credit that we've made in the last quarters going back in time. It's challenging, as Josh mentioned, given the rich credit environment. And so you just need to come up with a run rate based on what we've done over time, but it's multiple quarters of deployment to sort of run through there.

Nick Stelzner - *Morgan Stanley - Analyst*

Okay. That's helpful. Just one other quick question. Fund VIII now 60% deployed, it sounds like Fund IX is looming. I think you successfully scaled your prior PE funds. As we think about the size of the next fund, how should we think about the puts and takes around scaling there?

Leon Black - *Apollo Global Management, LLC - Chairman, CEO, Director*

I don't think you can ever predict. I think the good news is that there have been a lot of realizations the last few years, so many LPs have a good amount of cash to deploy. The good news is they seem to be giving more of that cash to top performers. But when you go out for fundraising, you never know what the outcome is going to be. I think we are already a very large fund. It's really hard to predict how much more that will scale.

Operator

We have reached the allotted time for questions, and that concludes the Q&A portion of today's call. I will now return the floor to Mr. Gary Stein for any additional or closing remarks.

Gary Stein - *Apollo Global Management, LLC - Head of Corporate Communications*

Thanks operator. Thanks, everyone, for joining us today. As we noted, if you have any follow-up questions, please feel free to give me or Noah Gunn a call.

Operator

This concludes today's conference call. You may now disconnect.