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## PRESENTATION

### Operator

Good morning, and welcome to Apollo Global Management's Fourth Quarter 2011 Earnings Conference Call. During today's presentation, all callers will be placed in listen-only mode. And following management's prepared remarks, the conference call will be opened up for questions. This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

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### Gary Stein - Apollo Global Management LLC - IR

Thanks, Operator, and welcome, everyone, to Apollo Global Management's Fourth Quarter 2011 Earnings Conference Call. Joining me today from Apollo are Marc Spilker, President, and Gene Donnelly, Chief Financial Officer.

Earlier this morning, we reported GAAP net income per share, per basic and diluted Class A share, of \$0.05 for the fourth quarter ended December 31, 2011 and a GAAP net loss per basic and diluted Class A share of \$4.18 for the year ended December 31, 2011.

For our combined segment results, we also reported non-GAAP after-tax economic net income of \$0.80 per share for the fourth quarter of 2011 and an \$0.86 loss per share for the full year ending December 31, 2011. Total assets under management, or AUM, was \$75 billion and fee-generating AUM was \$58 billion as of the end of December 2011. Based in large part on our strong realized carry performance in the fourth quarter, we declared a cash distribution of \$0.46 per share this quarter, bringing our full year distribution total to \$1.12 per share.

I'd like to remind everyone that today's call may include forward-looking statements representing management's beliefs on future events which can be uncertain in nature and outside of our control. Actual results and financial conditions may differ, possibly materially, from the anticipated results and financial position indicated in any such forward-looking statements and we do not undertake any obligation to update forward-looking statements.

We will also be discussing certain non-GAAP measures on this call such as economic net income and after-tax economic net income per share, which are reconciled to our GAAP net income or loss attributable to Class A shareholders and GAAP-weighted average Class A shares outstanding. These reconciliations are included in our current press release, a copy of which is available in the Investor Relations section of our website at [www.agm.com](http://www.agm.com).



Please also refer to our most recently amended registration statement that was filed with the SEC for cautionary factors surrounding forward-looking statements, additional information on non-GAAP measures, and risk factors relating to our business.

This conference call is copyrighted property and may not be duplicated, reproduced, or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow-up with myself or Patrick Parmentier after the call. With that, I'd like to turn the call over to Marc Spilker, President of Apollo Global Management.

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**Marc Spilker** - *Apollo Global Management LLC - President*

Thanks, Gary, and welcome, everyone to our 2011 fourth quarter year-end earnings call. Looking across the business, there were many positive events during the fourth quarter that I'll be touching on. The announced Stone Tower merger with our capital markets platform, fundraising success, including our strategic partnership with the Teacher Retirement System of Texas, organic growth across our segment that targets specific investment opportunities such as Europe and natural resources, significant deployment and realization activity within our funds, and a large fourth quarter and full year distribution driven by realized investment gains across the Apollo platform.

We achieved all of this in just one quarter. As you know, we had similar accomplishments throughout the entire year as we have highlighted on prior earnings call. Collectively, the milestones we reached in 2011 have provided us with positive momentum going into 2012.

As Gary mentioned, we declared a fourth quarter distribution of \$0.46 per share, bringing our full year distribution to \$1.12 per share, which was based on the strong realized carry results we had in our investment platform.

The realizations during the fourth quarter include -- a special dividend from LyondellBasell; portfolio company sales, including Connections Education and Parallel Petroleum; and lastly, the recurring interest and dividend income generated by investments in multiple private equity and capital markets funds. Later during our call, Gene will provide additional details on the distribution.

Importantly, the realizations that drive our quarterly distributions demonstrate our ability to deliver returns to our fund limited partners and shareholders, particularly during challenging market environments. Although unrealized values may fluctuate as we have seen through the year, the long-dated capital we manage gives us greater flexibility in choosing an exit point that maximizes the value of an investment.

Turning to our capital markets segment, there are multiple achievements to cover, the largest being the Stone Tower transaction. In December, we announced an agreement to merge Stone Tower Capital into Apollo's capital markets business. The close of this transaction is subject to certain conditions. The merger will significantly increase our capital markets AUM to approximately \$50 billion on a pro forma basis, making capital markets Apollo's largest business segment upon closing based upon AUM.

Stone Tower reinforces our positioning as one of the world's largest and most diverse credit managers, adding significant scale and several new product capabilities to our platform, including high-yield bonds and long/short credit products. The transaction is consistent with our strategy to expand the depth and breadth of our global integrated investment platform and meet the growing secular demand for comprehensive alternative investment solutions in credit.

At the end of December, Stone Tower managed approximately \$18 billion of alternative credit assets across a variety of corporate credit funds through separately managed accounts, credit opportunity funds and CLOs, as well as structured credit funds. Approximately \$5 billion of this AUM is expected to run-off from shorter-term advisory contracts and funds with estimated remaining lives of 12 to 18 months or less.

Numbers aside, this transaction is about two firms with outstanding track records, similar cultures, and a common investment philosophy -- value-oriented, focused on preservation of capital, and maximizing risk-adjusted returns.

Jim Zelter, our Head of Capital Markets, and Mike Levitt, the Stone Tower Founder and CEO, have known each other for a long time and we look forward to combining our teams and working together with the goal of delivering best-in-class risk-adjusted returns to our expanded investor base.



Another important topic being discussed across the alternative space is Europe, and the investment opportunities exist as markets work through the structural and economic headwinds they're faced with. Our capital markets team has significant experience investing in Europe and our primary European mezzanine credit and non-performing loan funds have generated strong risk-adjusted returns since their inception. This track record has proved valuable in the current fundraising environment.

We recently raised the European Credit Fund with over \$200 million of committed capital. It is interesting to note that we raised this fund through a US high net worth network of a leading global bank and we will continue to build our presence in this distribution channel.

We also recently launched our second European Non-Performing Loan Fund, EPF(2), and have already held the first close of approximately \$200 million. As a reminder, our first European Non-Performing Loan Fund raised nearly \$2 billion.

We remain enthusiastic regarding the opportunities available to us in Europe -- in the European market. Traditional banks in Europe comprise a much larger percentage of total corporate lending relative to the United States, yet loan activity in Europe has slowed materially in order to shore up bank balance sheets.

We therefore are able to act as a solution provided in two distinct ways -- additional supply for loan demand via our European Credit Fund and purchasing non-core assets from banks via our European Non-Performing Loan Fund. Behind the scenes, we're working closely with existing and potential strategic managed accounts, including pensions and sovereign wealth funds around the world, that want to deploy their capital in Europe to capitalize on the opportunities we see in front of us.

Regarding fundraising and managed accounts, we announced in November our long-term strategic partnership with the Teacher Retirement System of Texas to manage \$3 billion in commitments to various funds and customized investment programs across Apollo's integrated platform. I am happy to say that all of the documentation relating to this partnership was finalized in January and the related capital being managed will begin to be deployed later this spring.

As we've said before, strategic managed accounts come in multiple shapes and sizes. The overall appeal to institutions with these strategic arrangements is the ability to capitalize on our diverse investment skills and products to deliver strong returns while managing risk in a highly customized approach. We continue to have active dialogues with institutional investors around the world regarding these opportunities.

Our marketing team has also done well raising capital for specific vehicles. During 2011, we launched our Dedicated Private Equity Natural Resource Fund, which had approximately \$560 million of committed capital at the end of December, in addition to EPF(2) and the European Credit Fund I mentioned earlier.

Turning now to our private equity business and underlying portfolio company investments. We estimate that the aggregate revenues of Fund VI and Fund VII portfolio companies increased 16% during 2011 compared to 2010, while EBITDA grew at a more moderate pace of 13%. Looking at the comparable amounts in the fourth quarter of 2011 compared to 2010, the aggregate portfolio revenues grew at 16% while EBITDA declined in 5%, which we believe shows the volatility our portfolio can experience quarter-to-quarter, similar to the broader markets.

Overall, valuations were up during the fourth quarter, which led to \$329 million of total carry revenue during that period. This amount does not include any carry from Fund VI, which although profitable with a 6% gross and 5% net IRR since inception, was still below its 8% priority return as of the end of the year. Therefore, looking ahead, our ENI results could be more volatile with additional investment appreciation as we ultimately move into carry catch-up provision of Fund VI waterfall calculation.

As we have noted previously, unrealized values fluctuate quarter-to-quarter, but the long-term nature of the capital we manage gives us greater control over exit timing and price. Our financial results for 2011 highlighted this dynamic with a significant amount of realized carry we had during the latter half of the year when unrealized values were the most volatile.

There was a healthy amount of capital deployed by our private equity business during the fourth quarter when equity markets were more depressed, with over \$1.2 billion put to work. This includes more than \$700 million and it targets distressed debt opportunities around the world and a \$200



million add-on investment in LyondellBasell, which was required by Fund VII. For the year, private equity funds deployed nearly \$3.4 billion, helping us maintain a relatively constant deployment pace of approximately \$900 million on average per quarter over the last three years.

Looking ahead to 2012, we recently announced the purchase by our private equity funds of Taminco, the world's largest producer of alkylamines and derivatives, for approximately \$1.4 billion. Closing of this transaction is subject to anti-trust approval and is expected to take place in the first quarter of 2012.

Turning to our real estate segment, we had over \$8 billion of assets under management at the end of December. We remain active around the world to a variety of investment vehicles. Our AGRE US Fund, we formed a joint venture with Driftwood Hospitality. Together, we will purchase, renovate, and reposition full service hotels in secondary markets through the US. To date, we have acquired two hotels through this venture. Separately also, AGRE US, we just announced the acquisition of the Novotel Hotel in New York's Times Square.

In the US, we manage a variety of vehicles that invest in real estate-related loans and securities, and we continue to see attractive opportunities in mezzanine loans, both commercial and residential mortgage-backed securities.

Real estate opportunities in Europe are developing at a slow pace relative to the US, but we're still able to selectively source attractive investments. We recently formed a partnership with Ivanhoe Cambridge and Residential Land to invest in London's multi-family residential market. And last week, we announced the initial acquisition of four high-end quality, prime London assets.

I'd like to also cover two financial reporting items. First, we made a handful of financial disclosure enhancements that provide additional information within our earnings release and other regulatory filings. These enhancements include the disclosure of a non-GAAP, after-tax net income amount per share with related reconciliations to our GAAP results and the inclusion of a fee-generating AUM roll-forward to complement our existing AUM roll-forward.

We also modified our definition of net income, or ENI, which is more consistent with how we assess the performance of our segments. Later on on the call, Gene will walk through these enhancements in greater detail. The big picture, we believe that greater transparency around our financial results is beneficial, particularly since we operate within an industry that is relatively new from a public standpoint.

Another item that I'd like to mention relates to the incentive-based plan that we adopted this past summer for our senior employees. For the participants covered by this plan, the arrangement allows for discretionary awards to be funded with carried interest realizations earned by Apollo, with the related portion of compensation expense now reflected in the incentive business.

Gene will provide a few additional comments around the plan and the related impact on our fourth quarter results later in his prepared remarks. Overall, we think this arrangement is consistent with the core principles of our compensation philosophy, including alignment between compensation and firm performance.

In summary, I am very pleased with what we've accomplished in 2011 despite the market volatility that was with us for most of the year -- Apollo's IPO during the first quarter, as well as the IPOs of our Senior Floating Rate Fund, AFT, and residential mortgage REIT, AMTG, all of which are listed on the New York Stock Exchange; strategic acquisitions, including Stone Tower and Gulf Stream Asset Management, as well as our non-controlling stake in the parent company of fund-to-fund manager Lighthouse Partners; organic growth across our platform through the launch of new products, including our Natural Resources Fund, the European Credit Fund and a second European Non-Performing Loan, and our US Private Equity Real Estate Fund; the ability to find opportunistic investments off the beaten path that we believe we can deliver excellent risk-adjusted returns such as the ramp-up of Athene Life Reinsurance platform; strategic managed account victories, including the recently announced partnership with TRS and large sovereign wealth fund focused on European credit opportunities.

The list of 2011 accomplishments would go on for some time if we started to discuss our successful investment realization and the capital deployed by our funds. But the bottom line is this -- we have a clear vision of our strategic goals in light of the industry trends that are evolving within the alternative investment space and the global financial environment we're operating in.

We have a flexible and diversified platform that is able to adapt quickly, and we believe the momentum gained from the accomplishments in 2011 will leave us well positioned as we head into 2012 and beyond. With that, I'd like to turn things over to Gene.

**Gene Donnelly** - *Apollo Global Management LLC - CFO*

Thanks, Marc, and good morning, everyone. I'd like to cover the following items before we move on to your questions -- the quarterly distribution and related outlook for 2012; Fund VI and its priority return; the Gulf Stream and Stone Tower acquisitions; total AUM and fee-generated AUM; new financial statement disclosures; the performance of our management business; and key amounts on our balance sheet.

Starting with our distribution, the \$0.46 per share in the fourth quarter comprises \$0.07 of irregular distribution and \$0.39 from our incentive business. Approximately \$0.34 relates to the LyondellBasell special dividend and the sales of Connections Education and Parallel Petroleum. We estimate another \$0.05 came from our incentive business due to the recurring portion of our realized carry from interest and dividend income.

That \$0.05 is lower than prior quarters as a result of Fund VI being below its priority return as of the end of the year. However, interest and dividend income was still earned by Fund VI during the fourth quarter, and Apollo will be eligible to record the related carry when Fund VI goes back above its priority return.

It's difficult for us to predict the timing of future realizations and the resulting impact on our quarterly distributions. But as we look to 2012 and the more stable portion of our realized carry, we think it's reasonable to expect a base distribution of \$0.07 and another \$0.05 to \$0.10 from recurrent interest and dividend income generated by our funds. The underlying interest in dividend income is subject to our funds continuing to hold the corresponding debt and equity investments as well as the related portfolio companies continuing to declare their respective dividends.

Macro and industry-specific market conditions throughout 2012 will ultimately determine the number of IPOs, portfolio company sales, and other realization events that our deal teams are able to execute, which could further benefit our future distributions. All realized gains are also subject to the ability of our funds to distribute carry to Apollo per the terms and conditions of their respective management agreements.

Let me now turn to Fund VI and its priority return. The total value of Fund VI investment portfolio was \$9.3 billion as of December 31, 2011, and approximately \$1.6 billion of additional appreciation is needed to meet its 8% annual priority return threshold. When this level is met, we estimate that the next \$860 million of appreciation will run through the accelerated 80/20 carry catch-up portion of Fund VI waterfall calculation, which would materially impact our incentive business [CNI].

This effect has occurred in the past. Fund VI went above its priority return during the fourth quarter of 2010 before dropping back below in the third quarter of 2011. During the fourth quarter of 2010, Fund VI had approximately \$650 million of unrealized carry revenue largely as a result of its crossing through its 8% priority return during the same period. This highlights the volatility that our ENI results can experience when funds are valued near their priority returns and the relationship between ENI and investment performance of the underlying portfolio can therefore be less correlated.

Moving on to acquisitions, we're pleased to have closed on the Gulf Stream acquisition this past October, and the integration of our investment teams is largely complete and running smoothly as a combined business. Total consideration for Gulf Stream was approximately \$38 million and, as mentioned on our prior call, we estimate the acquisition will be accretive to Apollo in 2012. As of the end of December, Gulf Stream had just over \$3 billion of total and fee-generated AUM.

We expect to finalize the Stone Tower transaction in April, subject to closing conditions, after which point we'll be in a better position to provide additional financial information around the purchase terms and outlook on our combined results. After the close of Stone Tower and the addition of its \$18 billion of total AUM, we believe Apollo will rank as one of the top five managers of CLOs in the world.

In addition to these acquisitions, Apollo also added \$4.9 billion of AUM due to an increase in assets managed for the Athene Life Reinsurance platform during the fourth quarter, bringing the total AUM that we manage for Athene to approximately \$8.5 billion as of the end of December.



This amount includes \$2.5 billion of AUM managed directly by Apollo. For the remaining \$6 billion, we provide asset allocation and related services that are sub-advised with third-party investment managers.

Looking at other fourth quarter AUM movements, subscriptions and capital raised included an additional \$259 million of commitments to our natural resources fund, bringing its total AUM to \$561 million as of the end of December, as well as \$200 million for EPF(2) and \$200 million for our European Credit Fund.

Appreciation of our investments during the fourth quarter also led to \$2.6 billion of additional AUM in our private equity and capital markets segments, offset in part by \$1.4 billion of fund distributions, including both returns of capital and realized gains to our fund investments.

Many of you will have noticed a new fee-generated AUM roll-forward in our quarterly earnings release which provides more transparency around the AUM inflows and outflows impacting our fee-generating AUM and the resulting financial impact on our management business fee revenues. During the fourth quarter of 2011, the majority of the capital inflows discussed in our total AUM roll-forward also increased our fee-generating AUM.

As Marc mentioned earlier, we made a handful of financial disclosure enhancements, including the disclosure of non-GAAP, after-tax economic net income amount per share with related reconciliations to our GAAP results and a modification to our definition of economic net income, or ENI. We believe both of these changes are more consistent with how we assess the performance of our segments.

The largest change to our ENI definition was the inclusion of stock-based compensation expense associated with annual bonus grants, stock options, and other new hire and merit-based awards. Stock-based compensation expense associated with the formation of Apollo Global Management LLC and the related private placement in 2007 continues to be excluded from ENI.

We are also now deducting the non-controlling interest associated with certain of our capital markets management companies and adding back amortization of intangible assets. Both of these adjustments were largely offsetting in both 2011 and 2010.

To arrive at an after-tax ENI per share amount, we deduct a hypothetical income tax provision that assumes all income is allocated to Apollo Global Management LLC, which would occur following an exchange of all AOG units for Class A shares and then divide the resulting after-tax ENI amount by the non-GAAP weighted-average diluted shares outstanding for the respective period. All of this is also presented in the back of our earnings release.

Turning to our management business results, we saw improved performance during the fourth quarter of 2011 with \$28 million of ENI, which compares favorably to \$11 million of ENI for the third quarter of 2011 after adjusting for \$8 million of non-recurring fund IPO costs. The \$28 million of ENI during the fourth quarter of 2011 also compares favorably to the \$8 million of ENI during the fourth quarter of 2010 after adjusting for \$119 million of non-recurring gains. These improvements are largely the result of stable growth in our management fees combined with the new compensation plan that we adopted this past summer.

As Marc mentioned, certain partners and employees received discretionary compensation based on carried interest realizations earned during the year. Approximately \$35 million was paid out to our employees and partners under this new plan in 2011 and is reflected in profit share expense, \$21 million relating to the fourth quarter.

Amounts determined under this arrangement may contain both a fixed and discretionary component and may vary year to year depending upon the overall realized performance of Apollo and the contributions of performance of each participant. We believe this plan will attract, retain, and provide incentive to partners and employees as well as more closely align our overall compensation with the overall realized performance of Apollo.

There is no assurance that we will continue to compensate individuals through performance-based incentive arrangements in the future and there may be periods when the executive committee of the Company manager determines that allocations of realized carried interest income are not sufficient to compensate individuals, which may result in an increase in salary, bonus, and benefits expense at our management Company.





Looking at other non-compensate expenses, there was a \$15 million increase in professional fees that was largely driven by legal and consulting expenses, including amounts related to non-recurring events such as Gulf Stream and the Stone Tower transactions.

Finally, regarding our balance sheet as of the end of December, we had \$739 million of cash, which decreased by \$70 million since the end of September, largely related to the Gulf Stream acquisition and funding of additional balance sheet investments. We had a carried interest receivable of \$869 million, offset by a profit sharing payable of \$353 million, resulting in a net carried interest receivable of \$516 million.

Apollo's investments in its private equity capital markets and real estate funds were approximately \$353 million, excluding consolidated VIEs and funds that we don't have direct ownership in. Our debt held constant from the previous quarter at \$739 million. With that, we'll open up the lines for your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Your first question comes from the Michael Carrier with Deutsche Bank.

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### Michael Carrier - Deutsche Bank - Analyst

Thanks, guys. First, maybe just on the returns in the quarter and then in the outlook. So, not focusing too much on any particular quarter just given how the mark-to-market works, but I think last quarter as we were in through the reporting season, you guys just gave an update on if things were marked in this environment versus quarter-end, where things would stand.

And I think probably more importantly, just when you think about on the private side, when you look at how you value those parts of the business, given some of the things that have occurred over the past couple of months versus the fall, whether some of the better macro data, the markets, just what your view is on any changes in assumptions as we go through 2012.

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### Marc Spilker - Apollo Global Management LLC - President

When you say assumptions, you mean the valuation process or --?

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### Michael Carrier - Deutsche Bank - Analyst

Right. The public markets move pretty erratically, whether it was in the fourth quarter or the third quarter, and most of the time when you guys are looking at the private companies on valuations you're not going to change the assumptions and so a lot of times those valuations move a lot slower than what the public markets would dictate.

So, when I think about in the fall and through the fourth quarter, maybe some of the assumptions got more negative because some of them, macro data points, were pointing to slower growth. Recently, things have gotten a little bit better, so just how that changes your valuation methodology.

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### Marc Spilker - Apollo Global Management LLC - President

Look, as we say every quarter, the valuation, it's a point-in-time number. And given the economic environment we move in, both markets and sentiment move quickly. And I think what you -- and what I articulated in the script was you could see the fourth quarter of 2011 versus the fourth



quarter of 2012, that EBITDA was down. And I guess my own view is that given the macro events of the third and fourth quarter, that sentiment was probably at a low and that was clearly reflected in the valuation process.

And my guess is if you look at the market today it feels a little bit better, but we'll have to see quarter-to-quarter. But sentiment is shifting very quickly, and so it's very hard to give you a forward look of where things will be next quarter and beyond. But I will say that we do feel good about the portfolio. And what we say every quarter is that we don't think that those marks necessarily reflect where we will be able to monetize the investments over time and we think that there's value in the portfolio.

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**Michael Carrier** - Deutsche Bank - Analyst

Okay, that's helpful. And then just on the fundraising side, so you mentioned the TRS. There could be more strategic accounts in the future. I think you mentioned on one of the products on the credit side you're tapping like the high net worth channel. So when you think about the opportunities, and particularly when you look at all the products that you guys can offer and what that channel is looking for, where are the demands? And is that something that you can continue to see growth over the next year or two years?

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**Marc Spilker** - Apollo Global Management LLC - President

Yes. We've talked about this before, which is the secular shift towards alternatives, both in the institutional space and the retail space, and we think that that secular trend is strong. And over the years, we've actually had a presence in retail space, but we think there's a big opportunity for us.

And we will continue to develop product that we think speaks to our core strength on the investment side. And it may be a subset of our products, given what retail investors demand, but we think that there's a big enough overlap of the things that we are good at and retail will want that we're making an investment and building out the retail as a distribution channel for us. And I think it's a big opportunity and we're going to continue to invest in it.

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**Michael Carrier** - Deutsche Bank - Analyst

Okay. And the last one, and I think it's related to older funds, but if we just look at the distribution in both the AUM and the fee-paying AUM roll-forward table, you had a healthy distribution in realizations in the quarter, but it doesn't look like it had too much of an impact on the fee-paying AUM. So, is that just older funds so you're not collecting management fees on those assets but you can still realize the realizations?

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**Marc Spilker** - Apollo Global Management LLC - President

Yes, Mike, that's right. Sorry. The general distributions were out of funds that we're no longer earning management fees on such as Fund IV.

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**Michael Carrier** - Deutsche Bank - Analyst

Okay, got it. All right. Thanks a lot, guys.

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**Marc Spilker** - Apollo Global Management LLC - President

Thanks, Mike.

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**Operator**

Your next question comes from the line of Ken Worthington with JPMorgan.



**Ken Worthington** - JPMorgan - Analyst

Hi. Good morning. Maybe first, can you give us a little more flavor on the relationship with TRS? Obviously, it's a competitive market. You guys won a big mandate; others didn't. So, dig into maybe why they chose you.

And given the persistent low return environment, what is the outlook for the industry for more of these type relationships? And is it really the public pension funds that are the biggest opportunity here, like we haven't heard a lot from the sovereign wealth funds, but maybe talk about some of the demand from other client segments as well.

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**Marc Spilker** - Apollo Global Management LLC - President

There's a long-term relationship that exists between Apollo and TRS, and I think that the returns that we have provided for them over time and the relationship and the trust is really essential, and that was obviously a big element. And then, we keep saying this when we look at our platform we think it's very appealing given the possibility of investment returns and the integrated and diversified platform that we offer, and we think that that's very appealing.

I do think that there's not an unlimited universe of large, strategic managed accounts. The investors have to have large pools of capital; they have to be very sophisticated. And very importantly, a relationship needs to exist because we really are partners. And so we, as we've articulated in 2011, we've done a small handful of these, with TRS being the largest one.

We don't think there's an unlimited pool; there's a handful of others that we're going after and it's very hard to do these for much smaller amounts. And so we're going to continue to drive that and I would expect that to continue to grow, but maybe not necessarily at the pace that we've had.

And then, to your other question, it's important to note that it's not just pension plans, it's sovereign wealth funds. And we've done it with both and I think that that's -- large pension plans and sovereign wealth funds -- where the majority of the activity is.

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**Ken Worthington** - JPMorgan - Analyst

Great. And then, the market obviously seems more accommodative for harvesting. I guess, how accommodative is it? And I guess the real question is how hard are you hitting the road right now?

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**Marc Spilker** - Apollo Global Management LLC - President

Like I've always said, one of the values in our platform is that the investment team is very flexible. When it's time to invest, we can focus on that; when it's time to harvest, we can focus on that; and we can do both. And so I'm not sure I would say that it's a robust time to harvest, but obviously you look at 2011, and we had a fair amount of realizations and we've been very focused on it through the cycle, and so the team is working very hard where appropriate to look for exits.

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**Ken Worthington** - JPMorgan - Analyst

Okay. Lastly from me, talk about the competitive landscape in the credit area. Obviously, there's a lot of interest with perceived opportunities being large here, but the competitive environment also seems to be increasing. So, what does this mean for the outlook? How do you distinguish yourself [from peers]?

And you're obviously -- have really bulked up here. Is this -- does [mass improvements] here, the fact that you're getting to be so much bigger than you had been, does that attract a disproportional amount of interest to your franchise?



**Marc Spilker** - Apollo Global Management LLC - President

As we said, on a pro forma basis, assuming the close of Stone Tower, \$50 billion, on the one hand, that's a large number, but when you look at the market, it's still not a large number in the context of the market. And the fact that competition is coming in, I think, is a good thing because other people are seeing the same opportunity as the investor base, the capital allocator base are starting to get more comfortable allocating money to credit; we think we'll be a big beneficiary of that.

And yes, I do think that success breeds success, that not just our recent performance, but our long-term track record. But our recent successes in raising funds is really a vote of confidence by our sophisticated LPs, and that certainly helps when we go on the road bringing on new LPs.

And so the market is extremely large. And when you look at the size of other asset management companies like PIMCO and BlackRock, and they're not all credit, but they have significantly larger credit businesses than we do. And so in our mind there's a very large growth opportunity. And as we build scale, I think we're doing it in a more efficient way and I think that will help our growth on a go-forward basis.

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**Ken Worthington** - JPMorgan - Analyst

Great. Thank you.

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**Operator**

Your next question comes from the line of Roger Freeman with Barclays Capital.

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**Roger Freeman** - Barclays Capital - Analyst

Hi. Good morning. Maybe I'll just pick up on Ken's last question there. On Europe, particularly around the asset sale opportunity, it seems like a, the banks are -- the assets are coming out somewhat slowly; I'd be interested in your views on that. I seem to be tinkering with RWA calculations and shrinking balance sheets. I guess I'm just wondering if you think there's any risk that that opportunity ends up being less than many seem to think, just kind of like the [resi] sell-down and the opportunity in the US was?

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**Marc Spilker** - Apollo Global Management LLC - President

I think the real issue is one of scale. And so if you do all your calculations of the amount of assets that need to be disposed and the percentage of them that have already been disposed, you could say that they're coming out slowly. But when you look at the size of our funds in Apollo, transactions are happening. And for us, it's significant. So we don't need the whole industry to turn over in order for it to be a significant opportunity.

I do think that there is more pressure in Europe to dispose assets than there was in the US to dispose assets, and we're seeing that and so our confidence level of the opportunity remaining is still pretty high.

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**Roger Freeman** - Barclays Capital - Analyst

Okay. That's helpful. And on EPF(2), when do you anticipate to have a final close on that? Or how long do you think you expect to do fundraising?

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**Marc Spilker** - Apollo Global Management LLC - President

Yes. I'm not going to -- we're going to grow that platform. I'm not going to speculate when we're going to have the final close.

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**Roger Freeman** - Barclays Capital - Analyst

Okay. And then, I guess, on harvesting, you touched on it already, but where do you expect that to be concentrated this year in terms of secondary strategic sales, probably [lesser than] IPOs, but --?

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**Marc Spilker** - Apollo Global Management LLC - President

As you know, it's all opportunity and market-related, so hopefully there will be a harvesting environment. If there is, I think we'll do well in it, but it's hard to predict where that will be.

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**Roger Freeman** - Barclays Capital - Analyst

Okay. And then, the teachers, you said that's going to start funding this spring. Should we think about a two to three-year time horizon for full deployment?

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**Marc Spilker** - Apollo Global Management LLC - President

It's being worked on now. I would just say the way to think about it is probably the majority of the assets will be deployed over the first three to five years. And if opportunities come quicker, it will be faster.

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**Roger Freeman** - Barclays Capital - Analyst

Okay. Then last question. On the discretionary comp plan, how should we think about this in so far as I can certainly understand having some discretionary funds available where cash carry isn't coming through. But as that cash carry eventually comes through, is that considered --? I guess it can't really be, but it feels a little bit like people are getting comp sort of in advance of cash carry coming through and then they'll get it again when it actually comes through.

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**Marc Spilker** - Apollo Global Management LLC - President

No. I think Gene articulated it very, very clearly that it is discretionary based upon how -- what the performance of the firm is.

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**Gene Donnelly** - Apollo Global Management LLC - CFO

Based on realized carry, Roger. Realized carry.

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**Roger Freeman** - Barclays Capital - Analyst

Oh, okay. I thought you'd said something about when cash carry isn't coming through, that you have that discretionary comp. But I guess I misunderstood.

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**Gene Donnelly** - Apollo Global Management LLC - CFO

What we said, Roger, was that there is variability with this. And to the extent that there isn't realized carry, additional comp --.

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**Roger Freeman** - Barclays Capital - Analyst

Oh, got it.

**Gene Donnelly** - Apollo Global Management LLC - CFO

Okay?

**Roger Freeman** - Barclays Capital - Analyst

Yes. That's clear. Okay, thanks.

**Operator**

Your next question comes from the line of Robert Lee with KBW.

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

Good morning. Actually, maybe a follow-up to the last question. On this new comp plan, is there a cap in terms of what proportion of realized carry you will pay out, even in incentive, or is it kind of open-ended? Is it like capped at like no more than 50% of realized cash carry can go out in comp in total or it's just discretionary, however you guys decide -- whatever you decide is appropriate?

**Gene Donnelly** - Apollo Global Management LLC - CFO

There is no formal cap. This is a plan just launched in June, as we discussed earlier, and consistent with our philosophy of aligning compensation more and more with the firm performance. I think you could expect that the profit share percentage would grow, but I don't think that there's any set target for what that would grow to.

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

Well, I guess maybe along those lines, kind of philosophically, aside from the three principles your insider ownership [buying] employees is relatively low compared to some peers. So philosophically, why go that route instead of maybe encouraging more unit ownership instead of going through kind of the carry?

**Marc Spilker** - Apollo Global Management LLC - President

It's a good question and the answer is yes. And we think that that's important as well and we are doing both and will continue to do both.

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

Okay. And then sticking with the comp theme, June, the three principles. Compensation arrangements, I guess, are due for renegotiation and I guess I understand you don't have that finalized likely, but maybe just any sense you can give of is it even necessary to change it given their ownership stakes and everything? Or should we think it's going to be pretty much as is?



**Marc Spilker** - *Apollo Global Management LLC - President*

I believe it's July, and we will get to this conversation over time. I'll say what I said last quarter, which is that the three founders are fully engaged day to day and my expectation is that they will continue to be engaged through the contract period. And when something changes or there's something more specific, certainly, obviously everyone will know about that.

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

Okay. Thanks for taking my questions.

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**Marc Spilker** - *Apollo Global Management LLC - President*

Thanks.

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**Operator**

Your next question comes from the line of Patrick Davitt with Bank of America Merrill Lynch.

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**Patrick Davitt** - *Bank of America Merrill Lynch - Analyst*

Hey, good morning. A lot of your very large public positions have rallied pretty significantly from September, are probably well above historical kind of [MOIC] levels that you would start harvesting. Can you kind of help us understand what the thought process is when you have a large public position and how you sell that down? And to what extent you have lock-ups on those large public positions and how much you can sell?

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**Marc Spilker** - *Apollo Global Management LLC - President*

It's a good question, but every situation is different and so it's hard to generalize. But just suffice it to say that the philosophy around here is the investment team underwrites the position every single day and will continue to do that. In some cases, there are specific restrictions and that will be put into the kind of underlying underwriting process. But it's very hard to generalize like that.

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**Patrick Davitt** - *Bank of America Merrill Lynch - Analyst*

Okay. Okay. If the markets are favorable, would you expect that you'd have opportunities to sell down some of those stakes, or you just won't go there?

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**Marc Spilker** - *Apollo Global Management LLC - President*

I can't say specifically, but in general --.

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**Patrick Davitt** - *Bank of America Merrill Lynch - Analyst*

Yes.

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**Marc Spilker** - *Apollo Global Management LLC - President*

-- it would be reasonable to assume that the better the markets are, the better it's going to be for --.



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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Yes.

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**Marc Spilker** - Apollo Global Management LLC - President

-- for monetizations and exits. But again, the teams will continue to focus investment-by-investment on what's right to do for each investment.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Okay. I think you mentioned that there was, along with the TRS commitment, a managed account with a sovereign wealth fund focused on European credit. Have you said how big that is? Is it of the same scale or --?

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**Marc Spilker** - Apollo Global Management LLC - President

I think last quarter we said it was \$500 million.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Okay. All right. Great. And then, it looks like, even without kind of the one-time issues, you mentioned that you typically have a seasonal uptick in non-comp in the fourth quarter. Is that the case, and should we expect that to be ongoing?

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**Gene Donnelly** - Apollo Global Management LLC - CFO

I don't know that you should expect non-recurring expenses to be ongoing. We talked in my comments about \$15 million of additional legal and professional fees, [large] (inaudible - multiple speakers) -- non-recurring events, particularly Stone Tower and the Gulf Stream transactions. Whether or not they'll occur in -- a similar transaction will occur in the fourth quarter next year is anybody's guess.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Right. Right. But there is -- away from the one-time is what I meant. Is there not some seasonal uptick in 4Q in professional fees anyway, because it seemed to happen last year as well?

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**Gene Donnelly** - Apollo Global Management LLC - CFO

It may be coincidental that it happened the fourth quarter in '10 and the fourth quarter '11. I don't know that we have any seasonality in our professional fees.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Okay. Okay. And finally, on the management fee in capital markets, it looks like it came down pretty meaningfully. I assume that just is from the mix of the new assets coming in. Could you kind of help us walk through kind of the mechanics of where the new assets kind of were relative to where you were running?





**Marc Spilker** - Apollo Global Management LLC - President

Could you repeat the first part of that question? I thought you said a decline.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

The management fee rate.

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**Marc Spilker** - Apollo Global Management LLC - President

Okay.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Yes. Yes. Yes. Yes. Sorry.

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**Marc Spilker** - Apollo Global Management LLC - President

The addition of Gulf Stream has a lower fee, then each of those products have a lower fee. And then Athene also generated a significant increase in our AUM and the fee base on those products are generally lower than our historic average fee rates in capital markets.

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**Patrick Davitt** - Bank of America Merrill Lynch - Analyst

Right. Okay. All right. Thank you very much.

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**Marc Spilker** - Apollo Global Management LLC - President

Thanks.

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**Operator**

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

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**Alex Blostein** - Goldman Sachs - Analyst

Thanks. Good morning, guys. Marc, I wanted to circle back on your comments, just broadly around capital formation. It sounds like you guys have seen a lot of traction across lots of different products, lots of different platforms. I was hoping maybe you could help us kind of aggregate it into one or two numbers and say, okay, given what you've raised that's not currently in your fee-related AUM and I guess we understand that this is going to kind of trickle in over time, do you have a sense what is that number? Clearly, there's \$3 billion from Texas Teachers, then there is EPF(2) that you guys are currently I guess not collecting fees on. So what is kind of like the total of all those things together?

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**Marc Spilker** - Apollo Global Management LLC - President

I understand the question broadly, but I didn't understand specifically. Are you talking about the difference between fee-paying and non-fee-paying AUM, or --?



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**Alex Blostein** - *Goldman Sachs - Analyst*

No. So, you guys have rate --.

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**Marc Spilker** - *Apollo Global Management LLC - President*

(inaudible - multiple speakers)

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**Alex Blostein** - *Goldman Sachs - Analyst*

Right. So you guys have raised money that's currently -- that you already locked it in, but it's not in your fee-paying AUM yet. But it also kind of spans across a bunch of different buckets, so I was hoping you could just give us a number of what that is.

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**Gene Donnelly** - *Apollo Global Management LLC - CFO*

Sure. This is Gene. Perhaps I can start. With the potential of the Stone Tower acquisition, that's going to drive significant increase in management fees. As we continue to raise EPF(2), we talked about some initial raises there; that will drive management fees. Natural resources, the same, will drive management fees. So I think Marc did a good job describing earlier the progress that we've made in capital formation, and all that's going to start generating fees for us in 2012, if they haven't already.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Got it.

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**Marc Spilker** - *Apollo Global Management LLC - President*

I don't have a specific estimate for what the run rate revenue could be on all of that.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Okay. Fair enough. And, Gene, I just wanted to follow-up on your comments around distribution. So, it sounds like there's going to be a catch-up in some of the recurring carry that you guys are getting from Fund VI that you didn't recognize this quarter, once Fund VI actually crosses above the 8% hurdle. Do you have a sense of what that catch-up would be from a distribution perspective?

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**Gene Donnelly** - *Apollo Global Management LLC - CFO*

Based on the waterfalls to date, and given Fund VI is below its preferred return, we have an estimate that says it's around \$0.04 of interest in dividend income that would have been earned at Apollo, but for that fund being below its preferred return.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Got it. So, \$0.04 is really the catch-up to the \$0.05 to \$0.10 number that you were talking about more on a recurrent basis. Right?



**Gene Donnelly** - *Apollo Global Management LLC - CFO*

And that's all dependent upon Fund VI crossing its preferred return threshold.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Sure. All right. And then staying, I guess, with the distribution theme, do you guys have a sense of -- looking across your portfolio companies, are there opportunities for more of a similar kind of special dividends like you've seen with Lyondell, or future distributions should really be relying more on capital market activity and more of a traditional sort of exits?

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**Marc Spilker** - *Apollo Global Management LLC - President*

It's very hard to speculate on that.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Okay. And then, Gene, just one last one from me. I want to go back to the comments you made on comp and just maybe attack it a little bit from a different angle. So if you look at your total salaries and benefits in the management fee business, tick down about \$20 million sequentially, assuming there's no big realized carry next quarter, does that number go back to like a mid-60s run rate or do you think we're staying at kind of the \$40 million to \$50 million range?

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**Gene Donnelly** - *Apollo Global Management LLC - CFO*

I think that's some forward-looking information that we should probably not get too specific with. I think it's fair to say that as we continue to grow the platform, that our headcount will grow and would grow -- our expectation is to grow at the rate we've been growing. So you should expect an uptick in the run rate of that cost. What the mix will be is entirely dependent upon how that plan is implemented and the realizations that occur, etc.

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**Alex Blostein** - *Goldman Sachs - Analyst*

Okay. Thanks.

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**Operator**

Your final question comes from the line of William Katz with Citi.

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**Neil Stratton** - *Citigroup - Analyst*

Good morning. This is Neil, filling in for Bill. Just a quick question. What is the [tenor] of your recent conversations with LPs, maybe in terms of risk tolerance, increasing allocations to alternatives, interest and credit, etc.?

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**Marc Spilker** - *Apollo Global Management LLC - President*

Thanks for the question. I would say it really hasn't changed much over the last handful of quarters. Just the general backdrop is we're looking for lower-term investments. Our LPs are comfortable with -- their comfortable looking for things on the illiquid side; and therefore, our dialogue with them about the portfolios tends not to be day-to-day.



And when markets go up, they're expecting we're focusing on realizations; when they go down, they're expecting us to focus on putting capital to work; and therefore, that dialogue has remained largely the same. We see the desire to put capital to work, particularly in our areas of focus, which are Europe and natural resources, and we think that the dialogue remains quite healthy with the majority of our LPs. And that's why it gives us some degree of optimism about our ability to grow our platform going forward.

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**Neil Stratton** - Citigroup - Analyst

Great. And final question. Any shift in economics, generally, with the LPs?

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**Marc Spilker** - Apollo Global Management LLC - President

Again, we've seen very little focus on that.

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**Neil Stratton** - Citigroup - Analyst

Thank you.

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**Operator**

Thank you. That was our final question, and I'd like to turn the floor back over to Mr. Stein for any closing remarks.

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**Gary Stein** - Apollo Global Management LLC - IR

Thanks, operator. I want to thank you all for joining us today on the call. We are available to take your questions after the call. Please don't hesitate to call me or Patrick Parmentier, and we'll look forward to speaking to you again next quarter. Thank you.

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**Operator**

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

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