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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management's 2014 fourth-quarter and full-year earnings conference call. During today's presentation, all callers will be placed in a listen-only mode. And following management's prepared remarks, the conference call will be opened 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.

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

Thanks, operator, and welcome, everyone. Join me today from Apollo are Leon Black, Chairman and CEO, Josh Harris, Co-Founder and Senior Managing Director, and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP after-tax economic net income of \$0.23 per share for the fourth quarter and \$1.42 for the full year ended December 31, 2014. Apollo also reported distributable earnings to common an equivalent holders of \$0.91 per share for the fourth quarter and \$3.13 for the full year. We declared a cash distribution of \$0.86 per share for the fourth quarter, bringing the total for the full year to \$2.89.

Today's conference call may include forward-looking statements and projections, and we ask that you refer to our most recent filings with the SEC for important factors that could cause actual results to differ materially from these statements and projections. We don't undertake to update our forward-looking statements or projections unless required by law.

We'll also be discussing certain non-GAAP measures on this call such as economic net income and distributable earnings, which are reconciled our GAAP net income attributable to class A shareholders. These reconciliations are included in our fourth-quarter earnings press release which is available in the Investor Relations section of our website. Please also refer to our most recent filings with the SEC for additional information on non-GAAP measures and risk factors relating to our business.



As a reminder, 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 me or Noah Gunn after the call.

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

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

Thanks Gary, and good morning, everyone. At our inaugural investor day in mid-December, you heard a story about growth, about diversification, and about investment excellence delivered by a deep bench of extraordinary professionals. We demystified parts of our business by providing an enhanced level of transparency, particularly within credit. And importantly, we outlined a growth strategy which we strongly believe is well within our reach.

During my remarks this morning, I would like to reflect on a few of our most significant accomplishments during the past year. Then I'll turn the call over to Josh who will provide you with additional color on some of our key business activities.

As we look back on the year, 2014 continued to build on the strong momentum we generated previously. First, we continued to be incredibly active in monetizing our funds' portfolios and delivering significant returns while at the same time enhancing the profitability of our management business. The funds we manage generated total distributions of more than \$16 billion during the year, which resulted in a \$1.7 billion of gross realized carry. The pretax cash earnings contribution of our management business increased 53% year-over-year to \$435 million, or approximately \$1.07 per share, aided by improving margins.

So, putting these pieces together, strong realized gains in private equity and solid performance in our management business were the primary drivers of our \$2.89 per share cash distribution for 2014, the second-highest annual distribution in our history. In fact, 2014 capped a five-year period where a follow has paid out in aggregate more than \$10 per share in cash to our shareholders, representing more than 50% of our \$19 IPO price on the New York Stock Exchange nearly four years ago.

Next, we continued to solidify our position as a leading global alternative investment manager and drive our business forward during 2014 using a multipronged approach, including organic fundraising efforts supporting existing strategic initiatives to spur future growth and leveraging our ability to identify and originate new business opportunities.

On fundraising, we raised nearly \$10 billion of capital last year, a year that did not include a flagship private equity fund. This organic growth was driven by our continued success in meeting the strong limited partner demand we are seeing across the credit spectrum through raising larger successor vintage funds to spoke managed accounts and newer open-end products which leverage our existing expertise and product diversification.

We continue to fortify existing strategies to pursue new growth opportunities. In addition to the \$10 billion we raised for our funds and managed accounts, we helped Athene raise \$1.2 billion of pre-IPO equity last spring. They have subsequently used this capital to strengthen their balance sheet, bolster their product distribution capabilities and pursue opportunistic growth. Athene remains on a strong growth trajectory as evidenced by the recently announced Delta Lloyd transaction, which will add approximately \$5 billion of assets and represents Athene's first footsteps outside the US entity market.

Third, as we highlighted during our investor day, identifying and originating new business opportunities is a perpetual undertaking here at Apollo. The most recent example of this effort is MidCap Financial, an innovative direct origination and lending platform that we formerly announced earlier this week. While we have been active in direct origination for many years, this latest initiative to establish a dedicated permanent capital platform is pursuing the tremendous opportunity we see in the senior secured lending market in a much deeper way.

At the outset, MidCap Financial has more than \$1.2 billion of capital, including approximately \$700 million of new capital committed through recent fundraising post-year-end. And we expect the platform to continue to scale in the face of diminished traditional bank lending activity.

Moreover, as four to five turns of leverage are applied, we expect the \$1.2 billion of equity to increase to \$5 billion to \$7 billion in gross assets. MidCap Financial's direct origination efforts will be focused on the senior secured marketing, including asset-backed loans, revolving credit facilities, and other senior secured credit across a wide variety of industries. MidCap has entered into an investment management agreement with Apollo, and Apollo will earn an asset management fee on MidCap's gross assets.

Notwithstanding rising asset prices and double-digit market purchase price multiples in private equity in 2014, we at Apollo remain committed to our value orientation and continue to identify a variety of attractive investment opportunities. Across our integrated investment platform, we committed approximately \$13 billion of capital during the year of which we deployed \$10 billion. This was driven by strong activity across our platform where, in a generally overvalued market, we continue to find what we believe are attractive opportunities in a number of regions and industries such as in energy, which Josh will discuss in a few minutes.

In private equity specifically, our funds committed \$4.6 billion of capital of which \$2.2 billion was deployed during the year. In line with our value orientation, the average creation multiple on new commitments was approximately six times, which is four -- which is more than four turns below the 2014 industry average.

Our pipeline of committed but not yet deployed capital was \$2.7 billion as of December 31, of which \$1.5 billion was related to asset buildups that we expect will be deployed over time with the balance related to deals that have been signed but not yet closed. On a related note, we have committed nearly 20% of Fund VIII through December 31, so we believe we are well-positioned to deploy the fund within its investment period.

As we emphasized at our investor day, as we look forward to 2015 and beyond, we believe our value-oriented investment style, integrated alternative investment platform, and ability to innovate leave us exceptionally well positioned for meaningful future growth and profitability.

With that, I'd like to turn the call over to Josh for some additional comments.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Thanks Leon. I'd like to continue the call by providing some specific commentary around investment performance and capital raising.

Starting with investment performance, given the volatility we are seeing in oil prices, it's not surprising that a common thread between the relatively muted performance in PE and credit during the fourth quarter was largely due to marks on our energy investments. To put some context around this, our fund's energy exposure is only 5% of our \$112 billion of AUM in Apollo managed funds and accounts. This includes the sub advised portion of Athene. However, material volatility in one sector in any given quarter can have an impact on the performance of our funds, which in turn can impact our incentive business.

Our private equity fund portfolios appreciated by approximately 0.5% during the quarter. If we excluded energy-related investments from the private equity funds in the fourth quarter, the funds would have been up 5%.

Looking at performance over the past two years, the private equity funds have appreciated by a combined 59% with approximately 6% appreciation in 2014 and more than 50% appreciation at 2013.

Turning to credit, amid a generally soft backdrop that saw many indices post modest declines during the quarter, the approximately \$60 billion of Apollo managed funds in our credit business produced a breakeven return before fees and expenses. If we excluded energy-related investments from the Apollo managed funds within credit for the same period, performance would have been improved by approximately 100 basis points. For the year, this diversified pool of credit assets generated a positive return of 4.2% net to our fund investors. Given that our funds have long-term capital investment horizons, we believe that the recent volatility creates investment opportunities.

Going forward, you should expect our contrarian style of investing to drive us to lean into situations from which others may be running. In certain cases where the market values are falling, our conviction remains. Our funds are buying more to build on existing positions at a lower average cost.



As demonstrated by our long-term track record, this contrarian approach has proven to be a highly rewarding strategy, and it's the hallmark of our investment style.

In the energy sector specifically, based on our deep industry and technical expertise, we continue to believe this is a very attractive area to be raising and investing capital. And so we are tactically working to take advantage of the market dislocation. This leads into fundraising, where we are active on many fronts. As Leon mentioned, we raised \$10 billion across the platform during the year, and that does not include an incremental \$5 billion of assets we began to subadvise for Athene during the year. While fourth-quarter fundraising was relatively light, we have strong momentum heading into 2015, which we believe will be another strong fundraising year for the Firm.

Within private equity, I'm happy to report the recent launch of our second natural resources fund. We expect this fund will be significantly larger than its predecessor. This fund will continue upon our strategy of private equity investing in natural resources, principally in energy and metals and mining and agricultural sectors through distressed investments, asset acquisition and buildup strategies and corporate carveouts.

Turning to our credit business, given our integrated investment platform, we are also actively exploring a variety of ways to prudently meet investor demand for energy credit in both the yield and opportunistic areas, which target different levels of liquidity and return. The investment strategy in both these areas is focused on investing in discounted high-yield debt in the secondary market with the yield opportunity targeting returns in the 8% to 10% range and opportunistic investments targeting 15% or greater. You can expect that we will try to move quickly to capitalize on some of the opportunities we are seeing in energy, but it's important to note we remain particularly selective in the current environment.

Looking at our credit fundraising activities more broadly, we continue to grow our existing managed account relationships. Consistent with a trend we highlighted on last quarter's earnings call, we had three existing investors contribute additional capital to their accounts. That resulted in \$500 million of incremental commitments during the fourth quarter.

In addition to increased traction we are seeing with existing investors, we are also in active discussions for new mandates. By providing LPEs with holistic unconstrained credit solutions targeted to their needs, we believe that we are providing a differentiated service that is not easily replicated elsewhere in the marketplace.

Next, we continue to raise capital by a third structure credit recovery fund. This brought in approximately \$300 million during the quarter and we are sitting with total commitments of approximately \$500 million as of year-end. That fund is likely to hold a final close later this year.

As a reminder, we also continue to raise capital for a number of our open-ended strategies such as total return funds and credit hedge funds. In addition, we continue to opportunistically raise new CLOs in the US and Europe.

In real estate, the fundraising effort for our second US real estate fund is actively underway. We currently expect that fund will be larger than its predecessor.

Lastly, I'd like to highlight that as part of our effort to expand our reach in the retail channel, Oppenheimer Funds recently disclosed that the board of its Global Strategic Income Fund, a fund was \$6.5 billion in assets and a track record of nearly 25 years, has added Apollo as a sub-sub-advisor to the Fund pending shareholder approval. The goal here is to provide retail investors with access to Apollo's credit expertise where there is currently limited exposure in the Fund. This announcement is notable as this is our first sub-advisory relationship with a '40 Act mutual fund and we believe this type of opportunity is scalable, given our expertise and differentiated product offerings.

I'd now like to turn the call over to Martin Kelly for some comments on our financial results. Martin?

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

Thanks, Josh, and good morning again everyone.



With regard to our cash distribution, the \$0.86 we declared today includes our regular distribution of \$0.15 plus \$0.71 of other cash earnings. The additional amount above our regular distribution was primarily driven by carried interest funds from the sales of Athlon, Semico and Prestige, dividends from McGraw-Hill and Great Wolf, realized carry earned in the credit business, as well as refinements to cash tax estimates. Subsequent to the transactions in the fourth quarter, Fund VI held 45.5 million shares of Norwegian and 13.9 million of Sprouts.

Turning to our management business, for the fourth quarter, Apollo's management business earned \$164 million of ENI, exhibiting strong year-over-year growth. Looking quarter-over-quarter, management business revenues were impacted by a \$7.5 million contra revenue item at Athene Asset Management that was offset in the salary bonus and benefits line within management business expenses. We currently expect approximately \$6 million of the \$7.5 million to normalize in both management fees and compensation in the first quarter of 2015.

Non-compensation related expenses within the management business were modestly lower quarter-over-quarter. The meaningful increase in other income within the management business was driven by a \$30 million non-cash reduction to the value of the Firm's tax receivable agreement. The impact of this adjustment is offset by an increase in the ENI income tax provision. Excluding this item, our effective tax rate on ENI would have been 7% in the fourth quarter.

Turning to our incentive business, beyond the color Josh already provided around our investment performance, I'd like to provide some additional details. In private equity, the modest appreciation in the fourth quarter was driven by 3% appreciation in publicly traded equity holdings partially offset by two drivers. The first was that private holdings were essentially flat. The second driver were some negative marks in publicly traded debt holdings, a relatively small portion of the overall portfolio, which represents some ongoing distressed situations being pursued by our funds.

To elaborate on credit a bit further, you may have noticed a shift within our carry generating AUM. Due to the performance in certain of our funds this quarter, some of which was driven by energy marks, we had approximately \$8 million of carry eligible assets within credit move forward their hurdle. Slightly less than 50% of this increase is attributable to funds which had a return for the quarter which was positive but less than necessary to exceed the preferred return.

In total, we have \$14 billion of invested carry eligible credit assets that stood below their hurdle or high watermark as of December 31. Approximately 50% of these assets are less than 2% away from reaching their respective hurdles, at which point those assets would again become carry-generating.

Lastly, on the incentive business, as we have noted in prior quarters, there was a discretionary incentive pool compensation accrual in the quarter of \$23 million within the profit share expense. As a reminder, this incentive pool is separate from fund level profit-sharing, which can be positive or negative depending on marks, and therefore can have a variable impact on the profit share ratio during a particular quarter.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter. First, the percentage of Athene related assets invested in Apollo Managed Funds was approximately 21% or \$12.6 billion as of December 31, 2014, up slightly from 20% as of September 30. As we have noted previously, we expect the sub-advised assets under management to increase gradually over time as long as we continue to perform well in providing asset management services to Athene and also identify opportunities to redeploy their investment portfolio.

Next, as previously announced, Apollo earned its last quarterly monitoring fee, also known as the capital and surplus, or C&S fee, during the fourth quarter. The amount of this fee was \$59 million.

As of the end of the fourth quarter, Apollo had an 8.1% economic ownership interest in Athene. This includes earned C&S and related fees through the third quarter of 2014 as well as Apollo's general profit stake as the manager of AP Alternative Assets, or AAA.

In dollar terms, Apollo's economic interest in Athene is valued at \$389 on our balance sheet as of December 31. Note that this amount excludes the \$121 million gross carry receivable related to AAA as of December 31 and \$59 million of C&S and related fees earned in the fourth quarter that we also expect to be paid in shares of Athene at a future date.



One last point I'd like to mention relates to the escrow position of Fund VI. At December 31, Fund VI remained in escrow. As a reminder, escrow occurs when the fair value of the remaining investments in the Fund falls below 115% of the remaining cost of those investments. At December 31, this percentage stood at 104%.

Fund VI realization activity through the fourth quarter has resulted in an escrow cash balance of \$0.27 per share. The cash in escrow is sitting within the accrued carry balance of the Fund. At December 31, the total net carry receivable from Fund VI was \$0.30 per share, or less than 25% of our Firm-wide net carry receivable balance of \$1.33.

It is important to note that although it is difficult to forecast how long Fund VI will remain in escrow, as of the end of the fourth quarter, if all of the remaining investments in the Fund were to be liquidated at their then current marks, Fund VI's total net carry receivable, including the cash held in escrow, would be paid out to Apollo as the general partner.

With that, we will turn the call back to the operator and open up the line for any of your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open for questions. (Operator Instructions). Bill Katz, Citi.

Bill Katz - Citigroup - Analyst

Thanks very much for taking my question. I guess maybe separately, I guess there's some news out on Athene in terms of restatements. I'm sort of curious if you could talk about the implications, if any, there might be on the business?

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

Sure Bill. Good morning. Yes, with respect to the restatement, just to put it in perspective with Athene, just to make sure everyone is aware, Athene issued a press release. That was also issued through AAA this morning, so you can find the press release on the AP Alternative Assets website. They issued a pretty lengthy shareholder letter to the Athene investors providing an update on the business and provide of a lot of really good detail. Included in that letter was a reference to the fact that they were going to need to restate their Q1 2014 financials. But just to put this in perspective, Athene is a private company. We're talking about their GAAP financials. At the same time that they withdrew their GAAP financial information from the AP Alternative Assets website, they did post on their own website their stat financials for the third quarter of 2014. Also in the letter, they said that this restatement is actually going to have a positive impact on Athene's financials in terms of net income, ROE and book value. And also the letter said they're going to have -- they have very strong fundamental performance in the business, they got a few ratings upgrades. They talked about their acquisitions in Germany, and so forth. So I think, fundamentally, the business at Athene is very strong, so I think good performance there.

Bill Katz - Citigroup - Analyst

Okay. The second question is sort of a combined question maybe for Leon or Josh, and I'd appreciate both of your perspectives. Your MidCap FinCo seems interesting. It seems pretty leverageable. So part one of the question is are there more of those you can do, or can you accelerate growth through that entity even faster than the levered growth in front of that?

And then secondly, on Oppenheimer, could you talk about the economic impact of that, and are there other sort of other retail platforms out there in the hopper that could add to that opportunity set? So I guess a two-part question, sorry about that.



Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Okay, so I'll start with FinCo and then Leon can add on. In FinCo, look, this is a -- clearly this is one of the biggest opportunities, which the long-term trend of banks sort of getting out of direct origination middle-market and asset-based lending. And so that market is massive. So, this is really about we have now created kind of \$5 billion to \$7 billion of firepower. We're going to keep raising capital at FinCo. And it's now about deploying into interesting investment opportunities. And obviously, the choppiness of the market kind of has two effects. One effect is it does affect your fund performance on a quarter -- generally when you're not selling, it affects it on an unrealized basis, but the first set is it gets tougher for people to finance. And so this will be an opportunity. So yes, I think it could be a lot bigger over time. I don't know, Leon, if you have anything to add.

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

No, nothing to add. In OpCo, yes, again, this is another kind of long-term trend about people -- the retail investor which is only -- which is kind of 1% to 1.5% allocated to alternatives being able to take advantage of kind of alternative credit which more and more is becoming an interesting place for people to be. And they don't have a lot of options to get into that. So this is clearly through a larger fund structure, and that's one channel to get to that retail investor.

The reality is there are other channels, and we do have similar conversations in the works. And this is one part of the growth in our credit segment, but more and more we are focusing on retail. The retail investor, whether it be tapping into them privately, whether it be through larger fund complexes such as this one, whether it be in essence your closed-end funds in public markets, whether these are high net worth channels, there's multiple opportunities and the retail investor is getting wise about this and saying why is it that endowments should be allocated kind of 30% to alternatives? Why is it that sovereign wealth funds and state pension funds should be allocated 10% to 15% alternatives, and why am I only allocated 1%? And so how do I get part of this? And so you're going to see this being a leg of growth in credit across multiple channels. Clearly, income is what retail investors want. It's less -- there are interesting things in private equity, but this is really larger in credit.

Bill Katz - Citigroup - Analyst

Okay, thank you.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - BofA Merrill Lynch - Analyst

Thanks guys. Hey Martin, maybe still on the credit segment, just when we think about the growth in 2015 and even 2016, just maybe give us some sense when you think about the assets coming in, the mix of fees versus performance fees, and then probably more importantly, maybe the scale in the business. And particularly when I think about, on your fee earnings, the monitoring fee is coming out on the Athene side, where could you potentially offset that over time as you grow scale throughout the credit segment?

Martin Kelly - Apollo Global Management, LLC - CFO

So, yes, there's multiple different ways focusing both on the management company and the incentive company. The management company is really consistent with what we spoke about at the investor day, which is growing (technical difficulty) AUM across both the whole suite of assets or asset classes in what we called the yield bucket. It includes makeup, but it includes many other asset classes that we spoke to -- EM, aircraft lease financing, shipping financing, and generally senior secured and mezz lending, all of which we expect to do in an efficient way by managing the costs and improving our margins.

On the incentive company side, there's a lot of carry potential within the complex today, and that should increase further over time. Within credit, we have about \$15 billion of carry invested assets earning carry and we have about the same again of carry -- \$15 billion of assets that are earning carry, \$15 billion of invested that's not earning carry but is close to hurdle. And then we have dry powder on top of that. And so over time over the cycle, you kind of play a 10% to 15% carry rate or promote rate to that. And after profit share derive a meaningful contribution of the business.

And also, if you look back in time, just in terms of what we have done, if you take out the last couple of quarters in credit which have taken a sell-off, we are generating \$300 million to \$400 million of carry per year in credit, more in 2012, less in 2011 but over 2013 through the first half of 2014, that was the run rate.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Just to add, what we said at the investor day, which I still think is true, is that we should be able to increase credit assets kind of double digit organically just by taking advantage of all the things that Martin talked about, which come back to that the banks are pulling back, and you need kind of institutional lenders such as us and our clients to step in and provide credit to non-investment grade companies and finance assets. And then you've got this opening of the retail channel. And then you have a shift within the institutional complex towards alternatives away from traditional fixed income. And then we've got this R&D lab, which is in the background, which has over time unpredictably on a quarterly basis been able to stairstep our growth above the organic growth. And obviously Athene was a major stairstep. We took a major stairstep in the financial crisis.

MidCap is a step in the right direction. It's not obviously as large as Athene, but we are going to keep coming out with these things to juice that double-digit organic growth. And when we look at our credit segment, we see margins going up, not down. So over time, we think we should be able to drive margins up from here in the management company. And so I think that sort of gives you a financial picture, as much as we can, a financial picture of what we see happening over a kind of medium-term time period. I mean, obviously, fund-raising is episodic, returns are episodic, and on a quarterly basis, it's a little hard to predict. But I think that hopefully lays out the picture.

On the incentive side, as Martin said, I'll just repeat it, we have \$15 billion in the ground. I'm giving round numbers. We have \$15 billion that's in the ground and that's close. So we produce some good returns over time. Hopefully, we will get that. And then we have I think round numbers about \$10 billion of unused capacity to put money in. And we are putting up -- if you look at our numbers, we are putting a lot of money into the credit markets right now in specific situations. So again, you look at the incentive side of our business and it could go up quite a bit. And so that would be the picture that I would paint relative to what we can do.

Mike Carrier - BofA Merrill Lynch - Analyst

Okay. That's helpful color. And then just quick on energy, you guys already hit on it. I just wanted to get some sense on when you look at the opportunities out there, how much time you spend in there, given what you're seeing in the market, where you expect returns to be on near-term investments, and obviously over the next couple of years as you generate the return on the asset.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Yes, so we are spending a lot of time and energy, and I think we are well-positioned in energy because, truthfully, we have relationships with kind of engineers and scientists all over the US that can underwrite, help us underwrite reserve quality, so we know, we are able to know where the good reserves are, and that's actually tricky. In terms of -- and that's point one.

Point two is the market has come down broadbrush relative to the price of oil dropping. And so everything has been pushed backwards. And so if you're able to look at those quality companies and quality situations and differentiate them from other situations where the cost of producing oil might be higher, which are much more risky, you can really find some great value. And so that's what we are trying to do.



And I think like, fundamentally, we think the price of oil is likely to be higher over time. The issue obviously is predicting what that time period is. And so over a quarter or two quarters or three quarters, no one really knows. It's extremely difficult to predict the price of oil, and we wouldn't try to.

So, our general approach is if we find something that we think is long-run intrinsically way undervalued, we are going to buy it. And guess what? If the price goes down, we will buy more of it. And so it does lead -- it leads to a little bit of quarterly volatility, which you saw, but ultimately it has led over many years of doing this to fantastic returns. And so that's kind of going to be our approach in energy. We do see it as a really significant fundamental opportunity over the medium-term, and we are going to keep investing capital in it prudently over time.

Mike Carrier - BofA Merrill Lynch - Analyst

Okay. Thanks guys.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - JMP Securities - Analyst

Hey, good morning. So, I guess just to beat a dead horse here a little bit on energy, appreciate all that detail. But I know that the investments on the private side are generally hedged out on prices over the next several years. So, I'm just trying to think about with respect to marking those private investments, because I know there was not much mark this quarter, do you guys factor in any risk that maybe prices do remain lower through the hedges? I'm just trying to think if there's any lag impact to the extent prices don't recover, how that gets reflected through the marking process?

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Yes. The answer is first of all a lot of our -- a big chunk of our private equity investments are public, the biggest, the most noted one being EP Energy, and that goes up and down every day. Feel free to type it up on your Bloomberg.

The debt, most of the debt is also public. So, I do think that there is actually a reflection of the market's view of the price of oil in those companies. And the reality is that I think that -- so I think that the mark should accurately reflect kind of the price of oil today. And the markets you have -- whether were hedged or not hedged, I think, as an investment matter and in terms of a management matter, we actually also agree that the price of oil could stay low for a number of years. And so therefore, with that kind of in the back of our head, we are making investments that will perform -- we're both managing our companies in a way and making investments in a way that if that were to happen, and like I said, it's not predictable that we would still be able to make a good return and make money on those investments. So, we are not in any way predicting or telling anyone that we can predict the short-term price of oil. I think all we are saying is that long run economic fundamentals will govern. And we don't see these prices as sustainable over a longer period of time, but certainly for a couple years they could be sustainable. And so I don't know if that gives you the color that you want, but that's the way we are thinking about it.

Devin Ryan - JMP Securities - Analyst

No, that's actually great. I appreciate that. And then just to follow-up, with respect to Europe, how are you guys looking at the investing landscape there today? Has there been any change? Because there's been clearly a lot of macro crosscurrents with QE and the decline in the euro and just some other moving parts, so I'm just curious if kind of the view or opportunity has changed one way or another.



Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Look. The long-run opportunity hasn't really changed in the sense that -- looks, let's say in Europe, you have a bank system that's way larger than the US deleveraging and ultimately selling off what I technically call stuff, which is everything like asset-based loans, consumer based loans, corporate loans, businesses. And so that long-run opportunity continues.

I do think, with the latest moves by the European Monetary Authority to announce a large infusion of cash into the economies, into the banks, and into the system, quantitative easing, I would say that doesn't help in terms of assets coming out. So, I think we have seen kind of a slowdown in dialogue, if you will, because the banks now have lots of liquidity. Plus it's a little more competitive there right now. I think offsetting all of that is the economy is truly shaky over in Europe, and so the opportunity in Europe is much more volatile but it's still interesting, but it's different than the US. And it has slowed down a bit. So there will be a stressed opportunity in Europe. There will be asset sales. The latest \$1 trillion infusion has definitely given the banks more liquidity and slowed it down a bit.

Devin Ryan - JMP Securities - Analyst

Great. Thanks very much.

Operator

Chris Harris, Wells Fargo.

Chris Harris - Wells Fargo Securities, LLC - Analyst

Good morning guys. A broader question about the credit business. This came out at the investor day, you guys are looking to enhance your efforts in direct originations, and obviously some of the announcements more recently are further evidence of that. The focus now or the greater focus now on direct origination I can't imagine is kind of an easy thing to transition into. So, just wondering if you guys could talk a little bit about what you are doing within the business to try to make that transition as effective as it can be, and whether that requires any significant investments, or if you feel like your existing infrastructure is kind of set to handle that?

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

Yes, so we've been in that business for a long time. And certainly obviously our publicly traded BDC is a direct origination vehicle. We have numerous professionals that have worked in that business for a long period of time, in many cases some of our managed accounts. We have been relatively agnostic to how we put capital out relative to good risk-return. If it's a good risk-return, whether it's a secondary opportunity, a direct origination opportunity, we've been doing it.

Now, having said that, more recently we did acquire MidCap, which has kind of close to 100 people doing direct origination. And FinCo, this new business, is the combination of MidCap's infrastructure which existed and exists down in Bethesda and has been operating very successfully, both before and after Apollo's acquisition, and you know, kind of \$700 million or \$800 million in new capital. So that's kind of the way I would answer it.

I think Leon was just adding quietly over there, he keeps on talking to himself that we have several hundred investment professionals in credit that have been doing this for a long time.



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

This has been by far the fastest growing area of Apollo for five years. And we have added geometrically to the professional staff as we grow out new products and go into different sectors. And clearly, it's all part of the secular opportunity, one of there being low interest rates during this period so that you have an awful lot of pension funds out there that can't meet their 8% bogey and they need to start expanding into other alternative credit instruments and trading I guess liquidity for yield, we would say. And the other is, as you know, the regulatory environment that has provided very strong secular tailwinds to the buildup that we have been doing. So this is just one more piece of an overall tapestry that's being woven over a five-year period. And clearly, origination is a large and potentially profitable piece of that tapestry that makes a lot of sense for us, given the infrastructure that we have built up.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Okay, great. And a quick follow-up question maybe for Martin. Any read into realization so far in the first quarter, and what that might mean for the dividend?

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

Sure. So we don't have any meaningful PE realizations to date in the first quarter. So maybe let me just hit that a bit more broadly. We are a cyclical business, and we are moving from a heavy harvesting phase into more of a deployment phase. And I think about that in a couple of different ways.

Firstly, underpinning the distribution is our management business. And as we talked about our emphasis on growing fee paying AUM and expense management, that sort of anchors our cash distribution, which is around about \$1.00 a share.

And then on the incentive company side, we spoke to the unrealized carry on the balance sheet which is around \$1.30 per share, which will probably take some years to be realized. But we have about \$31 billion across the platform of carry earning assets today. We have another \$18 billion of assets that are invested but not in earning carry, and we have dry powder of \$29 billion. So in all, we have close to \$80 billion of carry eligible assets.

And then just looking at that by business, in PE, we are actively deploying into Fund VIII, which we spoke to. That's not in carry yet but will get there, and natural resources as well. So we have about \$20 billion of dry powder in that segment. Fund VII is active. It's about a third public, and there some private companies in there that are sort of maturing to an exit. And then Fund VI is in escrow, which we will continue to sell out of. But when and how that fund comes out of escrow really depends first on future value as well as the sequencing in which remaining investments are sold. And then credit we spoke to earlier on the call in terms of the carry potential there.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Helpful. Thank you.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JP Morgan - Analyst*

Good morning. First, in terms of Athene and the announced acquisition of Delta Lloyd, is it likely or possible that Apollo will be retained to provide some sort of services similar to what Athene does for the annuity -- or what Apollo does for its ingenuity business today? Or is it just a big enough difference where it's unlikely that Apollo can provide services to help out that business?



Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

I would say, at this point, the deal was just announced a couple of weeks ago. It's got to go through regulatory approval process in Germany. That will take a couple of quarters to get it closed. They expect it to get closed in the third quarter. As part of the review process, the regulators will review the business plan. So I would say it's too early to say what the economics will look like, but we do expect that there will be an arrangement in place probably with different economics than what we have in place here in the US, presumably a bit lower, but too early to say definitively at this point.

Overall, just to emphasize, there is a lot of enthusiasm for Athene and what they are doing, both in the US and in Germany. This acquisition in Germany provides potentially a really exciting platform to potentially replicate what Athene has been able to do in the US and Germany, which has a lot of similarities to the US market.

Ken Worthington - JP Morgan - Analyst

Interesting, thank you. And then Josh, you spoke fast, so I could've completely misheard this, so I apologize. Did you say that you expect Athene to sub-advise or maybe Athene did sub-advise another \$5 billion in January? And if so, that's a big step up. Why now? Where does the money go? Any flavor about that? But I'm not sure if I heard it right to begin with.

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

No, just to clarify what Josh said was during 2014, there was an incremental \$5 billion of assets from Athene that were sub-advised in Apollo's funds. (multiple speakers)

Ken Worthington - JP Morgan - Analyst

Got it. Okay, I knew it was too good to be true. Okay, good.

And then maybe separately since I blew that question, \$14 billion in credit below the hurdle, you said 56% less than 2% below the hurdle. Of the remaining, what's the situation there? What's the outlook for recovery? And is this common, like this could just be part of normal business? But how common is this kind of situation for Apollo in credit? Thanks.

Martin Kelly - Apollo Global Management, LLC - CFO

Sure. Let me address that. So to earn carry, you have to earn the press. So a lot of the issue we had was we earned money but not enough to keep up with the press.

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

And the preferred return.

Martin Kelly - Apollo Global Management, LLC - CFO

And the preferred return and the passage of time. So there's a spectrum of -- there's a lot of funds within credit that are carry-generating or have great potential. And there's a spectrum of sort of the appreciation that's necessary to get into carry. But I would say we spoke to 60%. One other data point is if you sort of go up another 100 basis points, you get to 65%, meaning if there's appreciation of 3%, 65% of that AUM fund by fund gets into carry.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

I'll take the second one. Ultimately, when you have volatility and you are buying into debts, and in this case we were buying into -- obviously we are buying a bunch of energy into debt, amongst other things, it's pretty typical. Like in other words, if you go back and look at the marks, even on our PE fund, our most wildly successful PE fund, during the financial crisis, they were well south of cost, \$0.50, \$0.60 on the dollar. And so this is actually a little bit how you do it.

And so I don't think we are giving -- you know, I don't know -- I can't give you the specific numbers. I haven't studied that specific question enough. But the reality is I don't think we are giving up on getting back to kind of incentive fee on very many of those funds. And so I really do think this is kind of just how it works when you want to create enormous value.

Ken Worthington - JP Morgan - Analyst

Okay, cool. Why the question was asked, so your value investors, you buy on the way down. This is typical of the way you invest, so not uncommon. Cool. Thank you very much.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - Autonomous Research LLP - Analyst

Thanks. In the vein of your answer to the QE question around it slowing the investment opportunity somewhat, I'm wondering to what extent it has been a boon to the money that's already in the ground, investments already on the books, so to speak.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

That's the way it works. And there's no question that some of the nonperforming loan portfolios are going quite well. Again, you kind of buy low, sell high. I hate to really oversimplify, but when yes, things are -- if you look at kind of where some things are priced, QE does affect asset prices and stock and financial assets in particular, but yes. So it's definitely buoying it.

Patrick Davitt - Autonomous Research LLP - Analyst

Okay, great. Then there's been some press around your difficulty in placing the debt of one of your deals, and that's come amid a lot of negative press around the Fuser's restructuring. Is there a connection there, or is it just more about stress on the yield markets? And should we be concerned that as you try to do more private equity like deals in the future, that some of your bond investors may be shutting down to Apollo type deals?

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Yes. Again, this is not the first time we've been through something like this. Clearly, we always work as hard as we can to serve our investors and protect our capital and maximize the value of our fund investments. Sometimes that leads to difficult negotiations with counterparties. In choppy markets like this one, there's constantly speculation as to why deals may be more difficult to finance, most of which isn't true.

So the only thing I would say is that I don't think this situation will have a long-term impact on our ability to finance transactions. I think we will be fine. That one did get financed. And this is not our first rodeo. People do as much as they can to put pressure on you, but I am personally and I don't think we are worried about the long-term impact on our franchise.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thanks.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Thanks. Maybe just on the capital deployment outlook, you had given, I think Josh talked about some of the overall compression in energy and how that's definitely creating opportunities. If we think about 20% of Fund VIII already deployed, do you see, say, over the near term, perhaps this year, as sort of an accelerated opportunity to deploy Fund VIII? And then how, in terms of an allocation perspective, how high would you be willing to go in that fund in terms of like energy exposure?

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

So, I would say that right now, the private equity market is generally driven by the leveraged finance market. The leveraged finance markets have been a bit choppy. But in the last kind of month or two, last quarter even, they backed up a bit. But they are still pretty robust relative to historical standards. And that is sort of driven by the easy money monetary policies and the strong economy we have here in the US. So, that's driven private equity multiples up to double-digit.

And as Leon said, we are creating our portfolio at kind of six times, so we are creating our portfolio at really a massive discount to the existing multiples. But it's not an easy backdrop to put money out. And so therefore, unless things change, we will continue to have to in essence fight a relatively fully valued private equity market.

Having said that, my own outlook is that -- and sort of the consensus out there is that kind of come the second part of this year, the Fed is going to start raising rates, and that will take liquidity. That will put pressure on the markets a bit, particularly the fixed income markets, or traditionally it has. And so no one knows the future, but I think the environment will start to come towards our own private equity funds, but we are able to navigate in either good environments or bad environments. Clearly choppy environments are better for us.

Leon, I don't know if you want to add anything there.

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

Yes, just sort of putting that in different words, look, we are very proud of the fact that we have produced best in class results for many, many years in many funds. But what I think we are most proud of is that we have done that by keeping our value orientation. And it is really dramatic to have put 20% of the fund to work in a 10 multiple environment for the industry of EBITDA and to have done it at a six multiple. I mean that's four multiples. That's not one multiple; that's four multiples under. So we've put 20% of the fund to work on our value-oriented -- at a six times.

Clearly, to answer your question, I mean if we wanted to stretch that and have done that at a seven average multiple, we could've put a lot more money to work. So the trick is with our over 100 professionals in PE covering nine or 10 industries who have a great network of relationships working with the environments that are operative for each of those industries is to find that best risk-reward state of our value orientation but yet be able to find things and pull the trigger on it. And so I am feeling very sanguine about our ability to maintain our discipline but also be able to find good investment opportunities to put to work.

Brian Bedell - Deutsche Bank - Analyst

That's really helpful color. Thanks. And then just the one follow-up. On the Oppenheimer strategic income fund, can you talk a little bit about what your sub-advisory role is there? Are you taking a slice of sub-advising like a mandated or awarded slice of that fund or is it more about new investments coming in? And then will that be an illiquid portion of the fund or will it largely be liquid securities?

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

Thanks for the question. Unfortunately, given that the board just approve this relationship, it still needs to go to shareholder votes, which won't happen for a couple of months, and so we are in a quiet period there and really can't talk more about the specifics other than to say it's focused on our credit business, which is obviously an area of strength where we can really provide a lot of value and exposure to a number of areas within the credit spectrum.

Brian Bedell - Deutsche Bank - Analyst

Okay. That's fair enough. Thank you.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - Morgan Stanley - Analyst

Good morning. Thanks for taking the question. So, I understand you can't talk specifics about the Oppenheimer relationship right now, but I was just hoping you could comment just maybe more generally about how you are seeing the retail opportunity in the sub-advisory relationships just more broadly in terms of what's sort of the sizing that you could potentially see and any color around the types of returns that you would be targeting for this type of investor base, and how you're also thinking about the liquidity provisions for retail in these types of structures. And any color on the fees would also be helpful too. Thanks.

Gary Stein - Apollo Global Management, LLC - VP Corporate Communications

I think it's early days in terms of being able to give specifics. Josh is going to add some additional color as well, but early days, do have other dialogs underway in terms of liquidity. Clearly, it's going to be focused on the more liquid part of what we do in credit. And Josh wants to add something.

Josh Harris - Apollo Global Management, LLC - Senior Managing Director, Director

Yes, I think there's an enormous appetite for yield -- in a low -- again -- I'm going to -- unfortunately I have to stay big picture here because just what we are doing -- just confidentiality and the like. There's an enormous opportunity for 8% to 10% yields, or 6% to 10% yields. You can't -- 6% to 10% yields. So the retail investor is likely to be interested in sort of a lower return part of our business, not our traditional, not as much our traditional opportunistic business. But we are, given the breadth of our platform, we are able to create 6% to 10% yields for BB kind of credit, which they have trouble accessing. If you go out and buy a BB high yield, or if you go to a typical mutual fund, you're not going to be making 6% to 10%. You're going to be making 3% to 4.5% for the same risk. And so for a portion of that -- for a portion of your yield dollar that you're targeting yield, you're going to want that higher yield even if it means a little less liquidity, which is kind of the trade. So we can create a big arbitrage for investors. And that's not to say we are going to get all their dollars, but right now we have almost -- the alternative segment (technical difficulty). And so everyone is shifting towards that opportunity. And like I said earlier, it's coming directly from private channels; it's coming through mutual fund complexes; it's coming through high net worth channels; it's coming through traditional brokerage channels. So there's all kinds of ways to do it. And we are adding literally kind of a lot of different approaches at a lot of different channels to sell our products.

So more to come. We sort of like to act first and talk after. And you know, this Oppenheimer thing was something we could give you a little color on. We'll try to put a little more color on some of the other stuff we are doing in the next couple of quarterly calls to the extent that we are able to.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Brennan Hawken, UBS.

Brennan Hawken - *UBS - Analyst*

Thanks. Most of my questions have been asked and answered. Just I guess a quick one. Have you seen any recent changes in the level of discussion in the M&A market just given some of the volatility we've seen in the last couple of quarters in public markets?

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

I don't know. Not really. I think the US GDP is strong and increasing. Like the oil price volatility, which has sort of impacted some of the markets, is actually good for the US economy and good for the global economy net. And so there's some technical choppiness.

My own view is that as we shift from a monetarily driven, technically driven market to more of an earnings driven market, there will be a little more volatility because there's a little more uncertainty around earnings, but that had a lot of flexibility during the last number of years in QE. But the overall economic picture in the US is quite positive. So if you are a corporation, you're looking at this and saying, hey, the pullback is actually pretty good. My business is still good. The consumer is still spending. Fundamentals are still good. Like I'm going to keep buying. So I think rates are low, I can borrow cheaply, I can issue stock at a relatively good price, so I think it's actually a pretty good time for the M&A market right now.

Brennan Hawken - *UBS - Analyst*

Thanks for the color.

Operator

This concludes the question-and-answer session of today's conference. I would now like to turn the floor back over to management for any additional or closing remarks.

Gary Stein - *Apollo Global Management, LLC - VP Corporate Communications*

Thanks again, everyone, for joining us on the call today. As we said earlier, if you have any follow-up questions, please feel free to reach out to me or Noah Gunn.

Operator

Thank you. This does conclude today's teleconference. Please disconnect your lines at this time and have a wonderful day.



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