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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management's 2014 second-quarter earnings conference call. (Operator Instructions). 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 - Corporate Communications*

Thanks, Operator, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and CEO; Josh Harris, Senior Managing Director; and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP after-tax economic net income of $0.52 per share and we also declared a cash distribution of $0.46 per share for the second quarter of 2014. For US GAAP purposes, we reported net income attributable to Apollo Global Management of $70 million for the second quarter of 2014, compared to $59 million for the second quarter of 2013.

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 will also be discussing certain non-GAAP measures on this call, such as economic net income and distributable earnings, which are reconciled to our GAAP net income attributable to Class A shareholders. These reconciliations are included in our second-quarter earnings press release, which is available in the investor relations section of our website. Please also refer to our most recent 10-K 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 afterwards.

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

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

Thanks, Gary, and good morning, everyone.

Our results this morning contain a number of highlights I would like to briefly summarize. First, we remain active in monetizing our portfolio and delivering strong returns to our investors. The funds we manage generated more than $240 million of realized carry during the second quarter, which, in addition to our strong management business, was the primary driver of our $0.46 cash distribution.

The private equity transactions driving the realized carry were completed at an average multiple in invested capital of 3.4X, reinforcing our best-in-class track record in private equity.

Secondly, we remain active in deploying capital in a variety of differentiated investment opportunity. Interestingly, the $6 billion of capital returned to our limited partners during the first half of the year from strong realization activity was more than equalized by a steady pace of deployment. Across our platform, the funds we manage invested or committed more than $7 billion of capital during that same time frame, reflecting continued activity in private equity and strong relative activity in our credit and real estate businesses.

And lastly, our fundraising efforts, our origination capability in identifying new business opportunities, and our solid investment performance continue to drive our business to new heights. To put some numbers around it, our AUM is up 48% year over year to a record $168 billion, while fee-paying AUM is up 64% year over year to $130 billion, also a record.

Next, we thought it would be helpful for Josh and I to address a couple of areas that we believe are top of mind. Two questions we have received a lot lately are, how are you going to deploy Fund VIII in the current business environment and how are you going to continue to grow your credit business? We clearly understand why these questions are pertinent today and we'd like to share our perspectives on these important topics.

First, on deployment in our private equity business, we are very confident in our ability to deploy Fund VIII within its investment period and we are already well on our way to doing that. In fact, as I will describe in further detail, we have already invested or committed nearly 15% of Fund VIII to date.

Strong markets have generally driven up pricing and average purchase multiples in the US are very close to the 2007 peaks. In Europe, they are even higher than in the US, so how do we, as a value-oriented investor who generally invest in the 5X to 7X enterprise value to EBITDA range, operate in a 9X to 10X world?

As I have said before, we remain patient, disciplined, and committed to a strategy that has delivered the best investment performance since inception in private equity among all our public peers, by a sizable margin. We won't continue to achieve the kind of results we aim to deliver for our investors by following the pack. We know that well. So instead, we pursue idiosyncratic, off the beaten path opportunities where we can leverage our deep sector knowledge and our credit expertise to capture and build value on behalf of our investors.

We believe purchase price is one of the greatest determinants of investment performance, and so if that means waiting longer for opportunities, we will happily wait.

We are very aware that the market will measure us quarter to quarter, year to year, but our focus is on a much longer period of time.

As a reminder, we have six years to deploy Fund VIII. Consider for a moment how much can change over that period of time. Six years ago this month, in fact, from August 2008 to the lows in March 2009, the US stock market declined more than 50% in just over six months and brought world equity markets along for the ride. That August was the precipice before Fannie, Freddie, Lehman, WaMu, and TARP, a chain of events not foreseen by anybody at that time.

To be clear, we're not projecting that kind of financial catastrophe to recur, but my point in mentioning this is to illustrate that markets move in cycles -- some shorter, some longer, some more severe than others, but the constant is that they always happen, and we at Apollo believe that we are particularly skilled at navigating through these cycles.

There have been four economic downturns since our inception in 1990 and six out of seven of our private equity funds have participated in a distressed cycle. Armed with what we believe is the best investment team in the business, flexible investment mandates, and plenty of dry powder from our fund investors who continue to reward us for our discipline and performance, we feel we are very well positioned to survey the investing landscape over the coming years and pick our spots wisely. And that's exactly what we intend to do.

Right now, one of our favorite spots is in the energy sector. We announced three deals in the second quarter alone, all targeting different geographies or verticals within that sector. In many cases, these deals reflect a combination of our investing capability and veteran management teams that possess specialized local, technical, geological, and engineering expertise to selectively acquire specific assets or, in some cases, whole businesses from large companies.

As such, many of these transactions are more nuanced and the commitments we are making have multi-quarter deployment timelines, based upon the identification of attractive assets, rather than one finite close date. So while we have reported approximately $1 billion in deployment by the PE funds we manage through the first half of 2014, these platform deals in energy are driving a pipeline of an additional $2.2 billion that has been committed and that we expect will be deployed over the next 12 months or so, including $750 million that is expected to fund in the third quarter with the anticipated closing of the Jupiter Resources transaction.

In addition to energy, we are selectively seeing opportunities in other sectors and this is partially being driven by dialogues with strategics on the heels of rising corporate M&A activity. It is worth noting that heightened M&A activity can be a catalyst for deployment activity, as corporates look to shed non-core assets or business lines in connection with an M&A transaction or to help fund a strategic deal.

Since we are one of the most active and experienced dealmakers in corporate carveouts, we believe we are well positioned to benefit from this increase in activity. Currently, the level of dialogue around these opportunities is more active than we have seen in quite some time. I would just add another area that we feel we are very proficient in is in doing very complex deals with hair on them, and we're also seeing a lot of activity in those areas right now, too, in selective industries that we cover.

In summary, we have invested or committed nearly 15% of Fund VIII in six transactions through June 30, just six months since the fund held its final close. Importantly, we are sticking to our discipline. The average entry multiple for those deals is approximately 6X versus the double-digit industry backdrop multiple I mentioned earlier. We believe this speaks to our team's ability to pivot across industries and geographies to find value in challenging markets and to deliver it to our investors.

I would now like to pass the call over to Josh to provide you with some insights on our credit business. Josh.

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

Thanks, Leon, and hello, everyone.

We understand many of you are focused on the growth opportunities in our credit business going forward. Clearly, credit is our fastest growing business segment with approximately $106 billion in AUM and a compound annual growth rate of 47% over the past five years.

You may have heard us mention this previously, but I like to reiterate that from our standpoint, we believe that our credit business has plenty of runway and can grow significantly from where it is today.

So how do we get there? Our growth story in credit is twofold. First, we have tremendous opportunity to scale our existing strategies and explore new ones that are adjacent to our overall investment approach. And secondly, our growth opportunity with Athene is truly differentiated.

We are continuing to operate amid a backdrop of three major credit themes, which will go on for a long, long time, including the impact of secular change from financial re-regulation; the deleveraging of bank balance sheets globally, particularly in Europe; and continued investor demand for yield and opportunistic credit in a low rate environment. These market dynamics are enabling us to step into pockets of the credit markets, such as shipping or aircraft leasing, which have historically been occupied by more traditional providers of capital. These types of opportunities require specialized expertise and deep credit underwriting skills, which play to the strengths of Apollo's integrated global platform and private equity capabilities.

In addition, as banks continue to shrink, we are benefiting from the opportunity to selectively acquire dedicated balance to expand in other areas of the credit market, such as emerging markets, corporate debt, and energy mezzanine.

In the aggregate, these silos of the market I am highlighting are massive in size and we are barely scratching the surface in many of them. Similar to private equity, we think credit markets overall are priced to perfection. Spreads are at near or all-time highs -- [tights], and clearly it's a challenging market to find yield, but our team is finding it.

Not surprisingly, our credit professionals are using a similar approach to what you'll find in our private equity business, a rigorous approach to research-driven proprietary deal origination, the ability to quickly shift towards high conviction ideas, and the distinct evaluation of relative value across asset classes and geographies.

All of this work on the investment side is then coupled with solution-driven dialogues we're having with our global LP base, such as pension funds, sovereign wealth funds, and high net worth and retail distribution channels. We work closely with these investors to identify areas where we can match up their targeted risk/return and liquidity objectives with Apollo's range of credit strategies and skills, which spans the yield and opportunistic spectrum.

In total, our credit business raised approximately $3 billion during the second quarter, including Athene's private placement, which I will speak to in a moment.

As we have highlighted previously, strategic managed accounts, of which we now manage more than $15 billion of AUM in the aggregate, continue to be an area of growth for us. Not only are we seeing interest for new mandates, two of which funded in the second quarter totaling $925 million, but we're also seeing certain investors with pre-existing accounts increase the size of those mandates as we have successfully deployed their initial capital and met their return targets.

Importantly, the dialogue for add-on or new commitments remains quite active.

On the fund side in credit, we're actively in the market with several products in which we raised approximately $800 million in aggregate during the quarter. Half of that total was driven by Credit Opportunity Fund III, or COF III, which is focused on illiquid credit opportunities sourced across the Apollo platform. The $400 million raised during the quarter brings total fund commitments to $1.5 billion to date, with additional near-term commitments expected to take the fund up to more than $2.5 billion.

It is interesting to note that several hundred million dollars of the commitments to COF III have been raised through high net worth distribution platforms of two leading global banks.

We also continue to leverage our strong position in the CLO market where, according to S&P, Apollo is the largest CLO manager in the United States, as measured by assets under management. In addition, we are proud to note that according to Creditflux, the CLOs managed by Apollo have delivered the highest equity returns, at nearly 26%, among all CLO managers, underscoring our commitment to delivering outstanding investment performance to our clients.

During the second quarter, we priced a $1.5 billion US CLO, which we believe is the largest CLO transaction since the financial crisis and the fourth largest CLO of all time. During the second quarter, we also priced our second European CLO, totaling more than EUR380 million.

Briefly moving on to Athene, clearly this has been a tremendous growth driver for us and we expect the company to continue to grow for many years to come. Extraordinarily, this company was just an idea in 2009, and today it is a highly rated fixed index annuity insurance company with a $60 billion balance sheet.

Athene is a powerful example of Apollo's ability to identify a differentiated investment opportunity in the marketplace, often before many others, and maximize its potential to achieve a remarkable outcome.

As you know, we assisted Athene in raising more than $1 billion of third-party equity capital, which closed in the second quarter, from a diverse group of distinguished institutional investors. Athene will use this capital for several purposes, including reinvesting in their business to strengthen their organic distribution platform, bolster their balance sheet to further improve their ratings as (technical difficulty) due to inorganic growth opportunities that are sensible for their business.

As Athene executes its ongoing growth strategy, we intend to continue to provide them with what we believe are attractive investment opportunities sourced across our platform, as we do with our other investors. While this may not necessarily add new AUM to Apollo, this effort should help us to grow the amount of assets we are directly managing for Athene over time and be additive to our earnings and margins.

One last point I'd like to make about our credit business before turning it over to Martin is in response to concerns we have been hearing relating to potential impact of rising rates on our credit business. Out of more than $100 billion of credit AUM, our funds manage very little in the way of rate-sensitive assets, that is to say treasuries, munis, and investment-grade bonds with longer duration.

In fact, we have an intentionally large exposure to floating-rate assets, and so we welcome a rising interest rate environment and believe it would be beneficial to our investment performance. Moreover, if rates were to rise at a quicker pace than expected, we believe any resulting dislocation would further benefit our returns, as we have historically outperformed in those scenarios. Any dislocation would also likely result in more rapid deployment of our drawdown credit and private equity funds, which tend to generate higher management and incentive fees.

Given these points, we believe that any concerns about rising rates with respect to our business are misplaced.

And with that, I will turn the call over to Martin to discuss our financial results.

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

Thanks, Josh, and good morning again, everyone.

Within our press release this quarter, you have likely noticed our newly introduced disclosure of distributable earnings, or DE, which we feel provides greater transparency into the cash earnings profile of our business and more closely aligns our reporting with a similar metric reported by peers.

As a reminder, our distribution policy is to pay out substantially all of our net after-tax cash flow from operations, or DE, in excess of amounts deemed appropriate to run our business.

If you look back over our recent history for the periods disclosed since the beginning of last year, you will see that our quarterly payout ratio on DE has averaged approximately 88%.

As it relates to the second quarter, as previously mentioned, our cash distribution declared was $0.46 per share, which includes our regular distribution of $0.15 plus $0.31 of other cash earnings. The additional amount above our regular distribution was primarily driven by carried interest earned from a handful of transactions, including secondary and/or block share sales of Berry Plastics, Rexnord, Sprouts Farmers Markets, and Brit PLC.

Subsequent to these transactions, the funds we manage held the following shares. Fund VI held 21.6 million shares of Rexnord and 37.7 million shares of Sprouts, and Fund VII held 116.9 million shares of Brit.

Based upon announced or settled transactions from our private equity funds since the beginning of July, including the share sales of Athlon and the remainder of our fund's holdings of Berry Plastics, as well as a dividend from McGraw-Hill and proceeds from the CLO refinancing Josh described, we have realized approximately $0.31 per share of net realized carried interest so far in the third quarter.

Turning to our management business, for the second quarter Apollo's management business earned $132 million of ENI versus $152 million in the first quarter of 2014. The quarter-over-quarter decrease was mainly driven by lower advisory and transaction fees, which were down $55 million primarily due to the absence of a number of specific items we highlighted last quarter, [we see] aggregate amounted to approximately $47 million.

Regarding expenses, second-quarter compensation was sequentially lower, primarily due to the absence of a first-quarter accelerated vesting charge related to our former President. Excluding this charge from the prior quarter, compensation costs were up approximately $9 million sequentially in the second quarter, reflecting continued headcount growth, including at Athene Asset Management.

Non-compensation expenses were $5 million higher during the quarter, reflecting an uptick in placement fees and interest expense. As Josh mentioned, we are actively raising products in our credit segment that could drive incremental placement fees in the second half of the year.

As I mentioned on our last call, going forward we will continue to strategically invest in the business by adding talent and capabilities to facilitate additional growth. And as we achieve an increasing amount of scale, we expect our margins to benefit over time.

Turning to our incentive business, in terms of the performance of our private equity funds, our traditional private equity funds appreciated by approximately 5% during the second quarter, which was driven by 6% appreciation in publicly-traded portfolio holdings and 4% appreciation in private holdings. Over the last 12 months, our private equity funds appreciated by approximately 36%.

You may have noticed that our profit-sharing expense ratios within the incentive business were elevated in the second quarter. This is primarily driven by two items. The first is the dynamic around which funds drive carried interest in any given quarter. While our long-term blended profit share rate, excluding the incentive pool, is expected to be in the low to mid 40% range, in any quarter this could be higher or lower since each fund has a specific profit-sharing percentage that may be above, below, or within that range.

During the second quarter, Fund VII, which has a higher profit share ratio, appreciated, while Fund VI, which has a lower profit share, depreciated. Similar to the first quarter, this combination contributed to the elevated profit share ratio in the second quarter.

Second, as we have noted in prior quarters, there was a discretionary incentive pool compensation accrual in the quarter of approximately $12 million within the incentive business. As a reminder, this incentive pool is separate from fund-level profit sharing and serves to incentivize certain partners and employees and can have a variable impact on the profit share ratio during a particular quarter.

Moving on to taxes, our second-quarter effective tax rate on ENI was 22%. Our ENI tax provision includes current taxes and an accrual for future taxes due on current ENI. Our calculation also assumes full conversion of AOG units into Class A shares. Our effective tax rate reflects a full-year estimate of taxable income, which itself considers the relative earnings contributions of our management and incentive businesses. The relative mix of these businesses continues to evolve with the growth of the fund.

Besides the growing contribution from our management business, taxable carry earned during the quarter within PE and credit contributed to the higher rate. There are some investments within the funds we manage that generate taxable carried interest and it tends to arise in certain credit vehicles, as well as in some energy deals within the PE business. So depending on the mix of the deals or funds driving carry, their movement can also have a meaningful impact on our blended tax rate in a particular quarter.

Also included within our ENI taxes of $59.5 million for the second quarter is approximately $20 million of taxes attributable to the Athene capital and surplus fee. The marginal impact of the Athene CNS fee to our effective tax rate is approximately 4%.

Next, I would 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 17% as of June 30, 2014. Although this percentage is in line with the March 31 level, the absolute dollar amount of both Athene's total assets, as well as the sub advised assets, grew during the quarter.

As we have stated 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 appropriate and attractive opportunities to redeploy their investment portfolio.

Next, Apollo has been receiving and will receive for two more quarters monitoring fees, also known as the CNS fee, that will ultimately be received in the form of common shares of Athene. For the second quarter, this fee was $52 million. As you can see in our DE reconciliation, while this fee is additive to ENI, it is accrued as a non-cash item and subtracted from distributable earnings.

As it relates to the CNS fee earned in the six months ended June 2014, this fee is being settled on a quarterly basis in arrears in the form of additional shares of Athene, based on its per-share valuation at the end of each quarter, and will appear as incremental value on our balance sheet going forward.

As of the end of the second quarter, Apollo had a 5.8% economic ownership interest in Athene. This includes earned CNS and related fees through the first quarter of 2014, as well as Apollo's general partner stake as the manager of AP Alternative Assets, or AAA.

In dollar terms, Apollo's economic interest is valued at $262 million on our balance sheet as of June 30. Note that this amount excludes the $121 million gross carry receivable related to AAA as of June 30 and $53 million of CNS and related fees earned in the second quarter that we also expect to be paid in shares of Athene at a future date.

Lastly, I would like to highlight that on May 30, an indirect subsidiary of Apollo Global Management issued $500 million in 10-year senior notes at a coupon rate of 4%. We used the proceeds to pay down $250 million of our term loan, with the remaining capital to be used for general corporate purposes.

Supported by strong credit ratings from S&P and Fitch and robust demand from institutional investors, this inaugural 144A debt offering allowed us to create a long-term capital structure at an attractive fixed rate and establish a benchmark if we choose to access this market again in the future.

After this bond issuance, our liquidity profile remains strong, with $1 billion in total debt outstanding, $1.1 billion in cash, and a $500 million undrawn revolver. Since our bond deal was completed two months into the quarter, we currently expect our run rate interest expense to increase by nearly $3 million in the third quarter to approximately $7.5 million per quarter.

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

(Operator Instructions). Michael Carrier, Bank of America Merrill Lynch.

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Appreciate the detail on the investing outlook and particularly around Fund VIII. Just love some color, are you guys having to get more creative around how you source deals and maybe structured some transactions differently in this environment? I appreciate all the color that you gave, but just to meet the objectives that you guys have and how stringent they are, whether that be in private equity or in credit. It sounds like maybe some of that is going on in the energy space, but would maybe love a little bit of an update on that outlook.

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

So I think, obviously, as the environment and the multiples go up and as the environment gets, from a valuation standpoint, higher and higher, it gets harder over time, and I think generally the complexity of the deals that you're doing have to be -- you have to be looking under a lot more stones. There is no question.

So that's one thing. I would say certainly we are getting better at our craft over the years. The energy vertical, we develop -- six years ago, we didn't have huge business in energy; now we do. We brought in a bunch of energy professionals. We built a series of management teams all over North America, and now we are taking advantage of that.

And so, we are constantly looking at, to use a hockey analogy, where the puck is going versus where it is today, and trying to figure out where are the arbitrages going to be? And I would say that today, the arbitrages are generally, even with the overvaluation environment, certainly in North American energy. If you have the skills and the expertise, you can take advantage of low prices as the massive supply of assets and massive investment opportunity from the shale phenomenon here serves things up.

But I think generally -- so I would say over time, those are our long-term trends. Short run, we're doing what we have always done, which is to go where others aren't. But certainly, it gets harder in this environment.

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

I would just like to add to that that this isn't a new phenomenon. If you look at the environment of our past Fund VII, which was a $15 billion fund, the average multiple being paid by our industry then was about 9 times.

I like to say that when I look at the track record we set with Fund VII, we put the $15 billion to work in that environment, and it was a 30% net return on that and about a 2.4X, but what we are most proud of is it was put to work at a 6.1 multiple so that we were actually taking less risk and still setting best-in-class returns. That is what we are about, and so when we say today, yes, the multiples have gone from 9 to 9.5, it is not like this is a new phenomenon that we are unfamiliar with.

So the combination of being able to switch from corporate carveouts to idiosyncratic, complex deals, and then, finally, as I said earlier in the prepared remarks, in six of our seven funds because we have a fixed-year investment statute on each fund, we have been able to also capture distressed opportunities because of cycles generally happening historically within a six-year period.

So the fact that we have already put 15% to work in the new fund and it is only really six months since it closed makes us feel very comfortable with being able to maintain and sustain our model.

Devin Ryan - *JMP Securities - Analyst*

Okay, great. Appreciate all the detail there, and then just the follow-up. With respect to the additional, I guess, incentive pool comp noted, can you give me any more detail of actually how much that was?

And then, was that tied to a specific event? Did it reflect any catch-up? I'm assuming that it was probably more elevated than it will be going forward, so I am just trying to get some more context around how much it was and why it came in this quarter.

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

Let me address the different components of the profit share. Overall, we have a 58% profit share ratio for the quarter. Within fee, that's 62%, and within credit, that's 48%.

Within fee, that is driven by the two factors that I highlighted on the call. One is predominantly mix between Fund VI and VII, and secondly is the incentive pool, which is a discretionary year-to-year program whereby an amount of carry can be discretionarily be put aside to pay investment professionals and other people.

Within credit, we had -- the profit share was somewhat elevated this quarter really for the reason that we had a one-time adjustment from our credit incentive plan. And if you remember, last quarter we introduced a new compensation plan in credit, which had a one-time cost associated with that. There was a slight incremental cost that we incurred in the second quarter.

Excluding that, the profit sharing credit was about 42%. And that reflects the allocated points on all the funds that contributed to the carry.

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

Right -- but to sum up, because there is a lot of puts and takes, certainly when you have -- quarter to quarter, the ratio is going to vary up and down because if you have funds with higher profit share that go up and funds with lower profit share that go down, you get strange results.

But we would expect our long-term -- as Martin said in his remarks, we would expect our long-term blended profit share rate, including incentive pool, to be in the low to mid 40s.

So we don't -- we feel like this is not going to be a recurring -- even though it has happened in the last two quarters because you have seen VI go down and VII go up, we don't expect that to continue. There is no reason for that to continue. It just happened to be that it happened two quarters in a row.

Devin Ryan - *JMP Securities - Analyst*

Okay, got it. Thanks a lot, guys.

Operator

Brennan Hawken, UBS.

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Brent Thill - *UBS - Analyst*

This is Brent Thill on for Brennan. Just wanted to ask, so you have talked about investing in illiquid and complex opportunities. So what are the implications of holding those kinds of investments, just in terms of earnings volatility from quarter to quarter, especially given the lower multiple investors seem to put on the alternative investment managers?

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

I'm sorry. The electronics were cutting in and out. Can you just repeat that, please?

Brent Thill - *UBS - Analyst*

Sure. So you have spoke about just finding better deployment opportunities and you have looked particularly at illiquid and complex kind of scenarios. So what are the implications of holding those kinds of investments in terms of earnings volatility from quarter to quarter, especially given the lower multiple investors seem to put on the alternative investment managers and just the heightened volatility that might create in earnings?

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

Anything that is not publicly traded or quoted is subject to a valuation process, which we go through each quarter, and we look at a variety of different valuation methods to -- depending on the sector and the type of investment. And so -- and that reflects a long-term view on cash flows or ultimate value in our exit from that position.

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

But I think you have to break it down. In credit, I think, first of all, we have the highest percentage of any of the publicly-traded alternative managers of liquid-based securities. So the market marks us -- it is what it is. We happen to have.

So when we talk about illiquid and complicated, I think we are talking about relative -- in credit, certainly, we are talking about relative to the bond markets and the bank markets. What we are trying to do is create off the run opportunities that add 300 to 500 -- add premium to the returns, typically 300 basis points and up for the same amount of risk.

To do that, those securities are generally less liquid. And so, I can't -- relative -- are those more volatile than the liquid securities? I think it depends on the market environment. Sometimes, they are; sometimes, they are not. If you look at the selloff in the last week, what sold off was the big liquid names that were salable. A lot of times, the liquid names aren't salable and they don't move as much, so I'm not sure I would draw that conclusion.

Relative to PE, we are buying things that lower our multiples generally than our peers, so we are buying more value-oriented companies. In some cases, growth-oriented companies get hit harder. In some cases, more value-oriented companies get hit harder. And so, again, I think it depends on the market environment whether we're going to be more or less volatile relative to our peers.

So, I think that -- I don't know if that clarifies what you were asking, but --

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Brent Thill - *UBS - Analyst*

Yes, I think it does. That's a fair point. I appreciate the color.

Operator

Chris Harris, Wells Fargo Securities.

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

Just a quick follow-up on the profit share, just to make sure I'm getting the concept right. If you have a similar situation with Fund VII and Fund VI, that they both appreciate in value the same, is it just safe to assume that your profit share is going to be constant from where it is today? And then, related to that, what is going to be the impact on that as Fund VIII starts to become more material in size?

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

On the first part of the question, if both funds either appreciate or depreciate, then you could average the profit share on a straight-line basis.

But if one is making money and one is losing money, but on a net basis, you make money, which is what happened both this quarter and last quarter, then the combination of that mathematically creates a very high profit share ratio, based on that carry.

When we talk about our long-term expected profit share ratio, that incorporates what we expect Fund VIII to do and how that will contribute to the earnings profile of the firm, and it also incorporates the new credit incentive plan that we discussed last quarter, which is across the credit platform compensation plan whereby all credit professionals participate in a common carry pool.

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

Though Fund VIII is in the -- when we say low to mid 40s, Fund VIII is squarely, actually, in the lower end of that range, so Fund VIII ought to push it towards that long-term ratio, and so that -- hope that helps.

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

That does and I appreciate that.

Then my follow-up, I guess, would be a bit of a hypothetical question. I know you guys probably don't like answering those, but I will ask anyways. I appreciate all the comments about being ready for a downturn and I think it's pretty reasonable to assume that we might get one sometime over the next five or six years as you are investing Fund VIII, but let's say over the next couple of years or so we don't get much change to the valuations in the marketplace.

Do you guys feel like this is where the run rate for the investing pace would be under that scenario or do you think, maybe, given some of the things you talked about in the comments, there might be opportunities to take it up a little bit more than where it is today?

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

I think it's hard to answer the question. I would say -- so if you -- we are year into our -- even though we closed six months ago, we are a year into our investment period. We've invested 15% of the fund. So, six times 15 is 90, so just at our current --

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

But 15%, excuse me for interrupting, was for the first six months.

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

No, it's for a year. It's from (inaudible). In other words, it started from the first quarter.

So 15 times six is 90, so at our current pace, we will invest the fund. So it's -- the ebb and the flow of the deal environment is highly unpredictable, certainly, so I guess that is the way I would answer it. I think at current pace, we will invest the fund in six years or in just about six years. So I think if the environment continued this way, that would probably be the answer without -- at current run rate. Hard to know whether it gets better or worse.

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

Got it. Thank you very much.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Thank you very much for taking my questions. You mentioned that you are having some good success in the high net worth channel. Just wondering as you look out over the next six to 12 months how that pipeline might look for incremental products and which products those might be.

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

There is a huge demand in the high net worth channel for credit, for both opportunistic and investment-grade credit where literally we say to people, look, we have a number of fund offerings in the marketplace where we say, look, we will give you for the same risk, if you want B risk, if you want BB risk, if you want BBB risk, we will give you for that same unit of risk 300 to 500 basis points of excess return. That is our pitch.

And what you have to give us is you have to be willing to give us a little bit of illiquidity. You have to lock up your capital. And we will also give you shorter duration relative to index.

And so, that pitch -- as everyone knows or people that are sensible believe that rates might go up, that pitch resonates with the retail sector. People are looking for that type of investment opportunity.

So that is -- so I would say it is in credit and it is broadly across the spectrum in credit, depending on what the investors would like. And it's -- by the way, it's a channel we are committed to and we are really investing in the infrastructure to be able to expand our offerings there.

Bill Katz - *Citigroup - Analyst*

That's helpful. And the follow-up question is this roll forward between the first and second quarter, a big percentage of your new assets were in co-investment vehicles, both in private equity and in credit. Just curious if you just saw a step back. You mentioned that you're getting very good success in terms of these larger strategic mandates. Just review the economics of those assets relative to legacy business. I presume they're lower fee, but maybe higher margin. Is that a fair way to think about it?

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

It's all over the map. I am not sure -- it can be all over the map. It depends specifically on the investment type. So I don't know how to really address it. It is too broad of a question. So, I'm sorry.

Bill Katz - *Citigroup - Analyst*

That's all. I will follow up off-line. Thank you.

Operator

Robert Lee, KBW.

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

First, I just want to -- thanks for the added disclosure on the DE. I think it is helpful.

I have a question on capital formation. Just wanted to touch a little bit on real estate. What are your thoughts there? If I am looking at it correctly, it looks like the debt fund in real estate is pretty fully invested, so is that a strategy you are in the market with now? Maybe that was incorporated into your comments on credit in general. And then, I will just have a follow-up from that.

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

The debt -- a lot of the debt stuff, certainly, first of all, is related to that stuff we are managing for Athene in terms of structured credit.

We have a number of public vehicles that are constantly raising capital, and then there are some other funds that are not fully invested. Certainly, our European nonperforming loan fund has capacity and it is investing in real estate. So I think it's -- I think we are going to continue to grow the real estate credit business. We see that as part of our -- right in our strike zone relative to our integrated platform with real estate private equity and everything we are doing relative to buying things from banks that are either re-regulating or overleveraged.

On the equity side, we are nearly fully invested in our real estate private equity fund, and we are going to enter the market shortly with another fund and expect that -- the first fund has done quite -- I mean, the latest fund has done quite well and we expect the next fund to be incrementally larger and successful.

So I think real estate is an area that we are committed to investing in, and certainly when you look at the size of real estate and you look at the profitability, which you all can see, it is not adding a lot to our bottom line right now. We get that, but there will be a lot of operating leverage going forward and we expect that to change over time.

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

Right, and (multiple speakers) just maybe a -- I'm sorry, go ahead.

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

It's Martin. I just wanted to go back, actually, and just make a clarification on the prior questions. I'm sorry to cut you off.

On the co-invest question, the roll forward shows $2.5 billion this quarter. That was co-invest money that was raised in prior quarters and we revised our definition of AO this quarter to conform with what we see as industry practice. So, it's not new dollars this quarter; it's a definitional change. Sorry to cut you off.

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

No problem. Maybe just as a follow-up, in thinking about business expansion and obviously you have talked about credit and real estate, some of your peers have also expanded their alternative platforms and building out fund-of-funds capabilities, things like that. Can you maybe just update us on your thoughts or if there is any appetite -- I know you had -- I guess you had that small investment in that Australian fund-of-funds business, but what your thoughts are in expansion into a different alternative marketplace?

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

We are looking at each other. Credit is such a -- it is not that -- we would never rule anything out and we are highly opportunistic, but we just see such potential in credit.

In terms of the size of our platform relative to the size of the opportunity out there and the size of the deleveraging going on and the number of assets that are coming out and the demand of our client base and our brand name and our expertise.

So we feel like we're pretty focused right now on our existing three platforms, which is private equity, real estate, and credit. We just see all of those opportunities.

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

Great. Thanks for taking my questions.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Thanks for taking my question. Just to focus a little bit more on the topic you talked about, Josh, on this concept of disintermediating banks, to some extent, given the regulatory changes and the deleveraging. Can you talk maybe a little bit more granularly about the different products that -- and the different vehicles that you have in which you think we will see the biggest growth? If you can talk about anything spanning from the NPL funds to any direct lending opportunities, as well as Europe versus the US. And then, just the CLO assets under management, if you could quantify that number as well. Sorry, a lot of questions.

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

Okay, so I would say certainly Europe -- the biggest, acutest pain right now is in Europe relative to the size of the banks and the need for them to get smaller.

And certainly, we are growing our business in Europe. We're also growing it in the US, but -- and it starts with certainly nonperforming loans, residential loans, consumer receivable, commercial loans. And then, it is just -- it is distressed for control situations. It is buying debt in the marketplace.

We have vehicles that are opportunistic credit vehicles where we are doing direct lending. We are buying debt in the marketplace. Each of our vehicles is probably mandated because we think that is the way to think about the world and limiting people to specific securities, we don't think, works.

So, the way I would describe our vehicles would be to bucket them in terms of low, medium, and high risk. We have, in essence, a BBB vehicle. We have a BB vehicle, and then we have opportunistic vehicles. And each of those have return 6 to 8, 10 to 12, and then 12 to 18. And when you compare those to the underlying indexes, you can do the math in your own head that we are trying to generate significant excess return for our clients.

So I would say it is really -- it's very broadly mandated. The thing I haven't mentioned is structured credit, which for the most part we also think is an interesting opportunity, particularly for insurance companies, so there is a lot of demand for that credit in Athene and otherwise. And so, it is pretty broad.

So I don't know if that answered your question, but that is probably the right way to put it.

Brian Bedell - *Deutsche Bank - Analyst*

That was very helpful. Maybe if there is a way to -- I am not sure if we can quantify this, but within your private equity vehicles and the flexible mandates that you have, do you have a sense of to what extent -- and you can think about Fund VIII as part of this -- you will be investing in these types of themes within Fund VIII?

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

Fund VIII, historically, our private equity vehicles have been 40% originated -- they are ultimately control vehicles where we want to end up with the equity.

But when you think about that can start off as a debt investment or an equity investment, and historically over the years when you take the overall average, it has been about 40% of our overall private equity dollars. Certainly, Fund VIII is starting off way lower than that. We haven't quantified it, but it's way lower than that and that's a function of the fact that the environment is ebullient right now. There is a lot of liquidity and distressed isn't as good of a business -- it's not -- there is not a lot of value in distressed right now. There is not no value, but we are finding value in other areas that we have talked about.

I don't know how to quantify where Fund VIII will end up, other than to tell you that the average has been 40. It has been as high as 80 in the early 1990s and VII was in the mid-50s. And then, it has been lower for certain funds. So, 40 is probably the best I can do on a long run average basis and it is starting off slow.

Operator

Dina Shin, Credit Suisse.

Dina Shin - *Credit Suisse - Analyst*

Thanks for taking my question. As you mentioned, we see Apollo being very active in partnering with local firms with an expertise in certain areas of the energy sector. When you think about build versus buy, what makes you to get more involved with platform investments, particularly in energy, versus buying the entire company, like how you do in PE where you take the majority of ownership?

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

It is purchase price. Where there is value and where you find value -- you need the management expertise almost whether you are buying the company or you're buying individual assets and creating a company.

If you went back three, four years ago, the value was in these buildups. Right now, what we are seeing more of is that the public markets are being quite discerning on companies that own multiple basins and they are valuing them at lower multiples, and so there is a lot of pressure on companies to shed assets and become more pure plays.

And so, as a result, we are seeing a lot of value -- and this is all directional. We are seeing more value in divisions and actual divisions of companies where big, big companies are shedding divisions, and we just announced a transaction with Encana, which is a very large Canadian company just like that, where they are shedding a division and I suspect that they are oriented towards becoming more of a pure play because they see it as a way to create value for their shareholders. But that's a trend that's going on across the industry.

Dina Shin - *Credit Suisse - Analyst*

Got it. And also, another question on the incentive income in the private equity section. We have seen negative unrealized income for the past four out of six quarters in the PE segment as Apollo is harvesting more than what is getting accrued right now. Given this trend, how should we think about the cash earnings generation power over the next 12 to 18 months?

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

I would break that into a couple of different pieces. One is the management company, which is growing, and if you look at the new DE table and if you look at the six months of this year versus last year, cash earnings are about $250 million versus $115 million last year. So as we continue to grow our credit business and as we focus on margins, that will improve the cash earnings of the management company.

The credit business is -- if you look back in time and you look at realized versus unrealized changes quarter on quarter, and certainly if you look in the last four quarters, we are averaging around $80 million of carry per quarter coming out of credit.

And there is different contributors to that. EPF is now playing a larger role. But that's not a flat-line, sustainable number, but that's the average that we are seeing. And then, if you look at PE, there is different ways to frame that, but we have $22 billion of PE money in the ground and that equates to -- across the whole firm, that equates to about $2.70 of carry per share at June 30.

And so -- and then we have Funds VI and VII, which are at different stages of maturity in terms of the percentage of their assets that are public.

So there is a robust amount of unrealized carry that is yet to be monetized and that will take quarters and years to do. At the same time, we are investing Fund VIII, and at the same time, we expect that $22 billion to continue to appreciate in value over the term.

Dina Shin - *Credit Suisse - Analyst*

Got it. Thanks for taking my questions.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Leon, can you talk about the asset allocation policies of some of your LPs? Where are you seeing -- if there is this opportunity coming from credit and maybe private debt, what bucket do think this is coming out of? Is this coming from the core fixed-income allocation or where do see these assets being sourced from? Thanks.

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

I will start. It is really coming from both. I would say that for a long, long time, you would show up at the pension funds and you would try to talk about opportunistic -- I will start with opportunistic. You would try to talk about opportunistic credit and you would start with the PE group -- the alternatives group, and they would say, well, what are the returns? The returns are low to mid-teens. Okay, we don't -- that's too low.

Go to the fixed-income guys. You would go to the fixed-income guys and they would say, well, we don't really do that. We invest off of indexes. We will buy investment-grade bonds.

And so, it was really caught in the middle of these institutions and no one was focusing on it.

What has happened recently is that CIOs have said, wait a second, interest rates are really low. We have a duration -- a fixed-income portfolio with long duration, and when treasuries go up, this thing is going to get killed. And so, what we are going to do -- we need ways out of that. And the equity markets are high. We are very nervous.

And so, the asset allocation in general has been 50%, 40%, 10%; 50% fixed income, 40% stocks, 10% alternatives. It is all shifting towards alternatives. So alternatives themselves are growing. Alternatives have doubled in the last five or six years, depending on what stat you look at, from 6 to 12 or 7 to 15, depending on what the stats are.

At the same time, even within the context of the fixed-income bucket, some of the things we are now doing relative to bank debt, relative to structured credit, relative to our total return fund product, which is an investment-grade fixed-income product which has less liquidity, all of these things are coming out of the fixed-income bucket.

So I would say it is all of the above, and it is really about solution selling to the CIO and solving a problem for these institutions, and one after another after another, you are seeing institutions wake up and want this type of product, which is why we say there is such opportunity for us in credit because they are just starting to fall like dominoes, whether it be sovereigns, whether it be US pension system now. Now it is the high net worth channels. Everyone is waking up and saying, this is a great place to hide in what we see as a possible storm coming. We can make good money relative to fixed income, but we have downside protection and we're not taking equity risk.

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

Just putting in a little bit along the same lines, but in different words, when you look at the world today and you look at all the institutional capital that is out there and how much of the pension community is still underfunded and sitting with an 8% bogey, the whole credit world or the high-rated credit world just doesn't get them there, when you look at where treasuries are and you look at investment grade.

So, you have a real challenge to most of these CIOs, and to be able to come to them and say, if you look at all asset classes, number one, private equity is one of the only ones -- it may be the only one -- that consistently over 20 years has beaten that bogey. And you come to them also with the credit argument that Josh just gave that there are a lot of different categories, and what we have tried to do basically is to create a Chinese menu of different products. And some of them may be fixed rate and some of them may be more inflation hedges with roving rates that go up with indices.

I think that is the great selling point right now for us. If you ask about asset allocation on private equity, the world has become very bifurcated. The really good performers are getting a lot of money. The ones who aren't, they are having to shrink their funds. We have been very fortunate to be in the first category because we have been able to consistently generate best-in-class returns.

I love this; I'm going to read it. It was a Wall Street Journal article last week that came out, and Preqin, the data provider, basically said that APO, Apollo Global, is the lone representative of the large publicly-traded firms to make it into the list of roughly three dozen buyout firms which have consistently outperformed their peers.

Now that basically has translated into us being one of the few that also increased the size of our private-equity fund, and that does not go unnoticed by investors who are trying to beat that 8% bogey, that we have never done worse than 9% or 10% in our 24-year history.

Likewise, in credit, we have created a whole range of products, some in the 6 to 8 range at a very senior level unlevered up to NPLs in Europe into the mid to high teens, and in between, there are a dozen different products.

So, if you look at your original question on asset allocation, it really comes in all colors and sizes. The fact that we now have all these managed accounts, $15 billion, some of them basically give us a carte blanche and say, just give us where you think you're going to be able to find the best opportunities to do better than 13%. You choose.

Others have specifically said, we just want to be in European credit, and so forth. And then you get down to something more granular, which isn't a managed account, but where they say we choose this product on your Chinese menu.

But given the disintermediation that is going on with the banks and the few investment banks that are left, and given that need by all the capital out there and given the fact that the sovereigns are really flush with money now today, also, all these wins are really playing very much in our favor.

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

And just to give you a sense of size, the banking sector, as we add it up globally, is about $100 trillion. The pension system assets are $60 trillion. If you look at publicly-traded alternatives with credit businesses and you try to add up all the credit money that you can find, it is less than $500 billion, so $0.5 trillion.

So the size of the -- when I talk about the size of the opportunity, it is in the context of those numbers and it's just starting.

Marc Irizarry - *Goldman Sachs - Analyst*

Great, thanks.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Just a question on the realization outlook. The vast majority of your portfolio is liquid. I think the net accrued carry is around $3. The performance is good. So when I think about the timing, does anything change as the credit part of the business is a bigger contributor? Meaning, should we think about longer or shorter duration in terms of realizing that accrued carry?

And then on the private equity side, are there any restrictions in terms of secondary restrictions that would limit you taking advantage of the opportunity to realize that carry or is it just the normal opportunistic based on the market backdrop?

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

Credit is very different than private equity. Private equity, you put money in the ground. You wait. You build value. Base case, five years later, it comes out of the ground, sometimes it's a lot faster and you have made 2 -- in our case, 2.5 times your money.

Credit is literally you put money in the ground, you immediately get interest expense, and maybe you -- the duration of buying and selling is much more rapid, so I think you can think about credit almost as -- and we haven't -- we should -- I don't know what the averages are, but it is very, very -- it is very quick and it will be more normalized, more recurrent, subject to normalized market conditions.

And so, certainly thinking about those two components very differently in terms of their predictability. Certainly, most of the income coming out of credit is interest expense and that is highly predictable.

So I would say that those are very different. There are no restrictions on what we can do or can't do. We are able to realize and when we feel like it. In certain cases, for a very small number of our funds, we have -- they are re-investment funds where the profit gets reinvested or whatever. But that's a very small percentage of what we do. Martin, I don't know if you want to add anything?

Operator

[Amanda Yow], JPMorgan.

Amanda Yow - *JPMorgan - Analyst*

(technical difficulty) to name a couple. Can you just touch on the greater use of JV and partnerships to invest capital? How are these deals structured and do you see greater focus placed on pursuing partnerships going forward?

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

I'm sorry, we lost the first half of your question. Do you think you could just repeat it, please?

Amanda Yow - *JPMorgan - Analyst*

Absolutely. The partnerships that were announced quarter, [as] energy and [CSV], just to name a few, can you just touch on the greater use of JVs and partnerships to invest capital?

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

I would say that in the energy space, you need financial expertise, but you also need teams of scientists, landmen, reserve engineers, petroleum experts. And so, the use of partnerships is likely to be very high in the energy space.

Even if you are buying a division of a company, you are usually doing that with people that can help you understand the assets better than you can, better than you are situated.

So while -- as we mentioned, North American energy is a big part of what we are doing right now because that happens to be where the value is today. And so, you are seeing a lot of partnerships. And to the extent we are doing more North American energy, you'll see a lot of partnerships.

We certainly do use partnerships in pretty much every other area of our PE business; it is just not as important and the percentages are much lower and, therefore, you don't hear about it as much. But certainly with the focus on North American energy, you will see more announcements with this partnership added expertise being the driving force.

Amanda Yow - *JPMorgan - Analyst*

Great, thank you. And just to follow up with that, can you talk a little bit more about how these deals are structured?

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

They are structured as we put up the bulk of the capital, but the management teams and the partners put up a bunch of the capital also. In some cases, assets are contributed, but usually not. And then, they're provided and then -- so they are provided some incremental incentive, based on returns that are good for our LPs.

For example, and by the way, as Leon just pointed out, this is how Athlon started. Athlon, which now a very successful deal for Apollo and a highly successful public company, started off, literally, we sat around with a team. There were no assets and we agreed on a partnership structure with them, and then we started looking at things, with our expertise being capital and strategic oversight and financing and capital structure and their oversight being managing the day-to-day operations and evaluating reserves and managing the business. And so, literally, now, this is a huge company.

Operator

Thank you. That was our final question. I would now like to turn the floor back over to Mr. Gary Stein for any additional or closing remarks.

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

Thanks, Operator, and thanks, everyone, for joining today. If you have any follow-up questions, please feel free to follow up with Noah Gunn or myself. Thanks again.

Operator

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