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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management's 2014 first-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 - Head, Corporate Communications*

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and CEO, and Martin Kelly, Chief Financial Officer. In addition, Josh Harris, Senior Managing Director, is on the call today and will be available for Q&A.

Earlier this morning Apollo reported non-GAAP after-tax economic net income of \$0.55 per share and we also declared a cash distribution of \$0.84 per share for the first quarter of 2014. For US GAAP purposes we reported net income attributable to Apollo Global Management of \$72 million for the first quarter of 2014 compared to \$249 million for the first 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, which are reconciled to our GAAP net income attributable to Class A shareholders. These reconciliations are included in our first-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. Before I begin my prepared remarks on our business, I would just like to take a brief moment to thank Marc Spilker for his contributions to the firm during his tenure as our President. As many of you know, we recently announced that Marc stepped down, but we are very glad he remains aboard as a senior advisor to assist the firm in the transition through the end of the year.

Marc was very instrumental in helping the firm get off the ground as a public company and he was engaged in communicative our business to all of you, which is something that I, along with my partners, Josh Harris and Marc Rowan, expect to take a more active role in going forward.

This call marks the three-year anniversary of our first earnings call since listing on the New York Stock Exchange in our 2011 IPO. While much has changed in the short time since, I am proud to say that our firm has continued to grow and diversify, reinforcing our position as a leading global alternative investment manager.

First, our AUM has more than doubled to nearly \$160 billion during that time, up from just \$68 billion at the time of our IPO, largely driven by robust growth in our evolving credit business, which stands today at over \$100 billion. Secondly, we continue to deliver investment excellence to our fund investors as demonstrated by our stellar track record in private equity, which now stands with a 39% gross return and a 26% net IRR since our inception when we started Apollo nearly 25 years ago. Importantly, our strong performance has driven almost \$8 in cash distributions per share to our shareholders since our IPO.

Lastly, our outstanding investment results have enabled us to raise a significant amount of new capital for a variety of strategies across Apollo's integrated platform. For example -- and I have to say we continue to be humbled by the strong support extended by new and long-standing limited partners for our eight flagship private equity funds, now the largest in the firm's history at \$18.4 billion, which closed at the end of 2013. And this was at a time when raising larger successor funds was proving difficult for many industry participants.

In short, I am tremendously pleased with the progress we have made to date as a public company, but I'm even more optimistic for the future and I would like to highlight some of the reasons for my enthusiasm.

First, our integrated investment platform, one that leverages the collective experience of our 300 investment professionals across multiple businesses, we believe provides us with a clear competitive advantage. In addition, our differentiated, value-oriented, contrarian investment philosophy continues to permeate everything we do as investment managers, regardless of where in the capital structure we are investing in our funds' capital.

This point about our investment philosophy is particularly important since it may be as relevant as it has ever been in today's market environment, where private equity valuations remain elevated and credit is priced to perfection with yield near historic lows. Since we announced the close of Fund VIII, there have been some questions in the marketplace around our ability to invest this fund in the current market environment.

Our view is that, just as we have done throughout all market cycles since Apollo's founding in 1990, we are remaining disciplined and patient as we pursue more idiosyncratic, off-the-beaten path opportunities where we can leverage our deep sector knowledge and our credit expertise to capture value on behalf of our investors. Currently, these opportunities are presenting themselves most evidently within two overarching investment themes that we believe will persist, not just for a few quarters but for many years.

The first opportunity is the massive capital investment needed in the energy sector and the second opportunity is the shifting financial services landscape, not only in Europe but here also in the US. With these themes and other investment ideas in mind, we are actively investing in building the pipeline for our new private equity funds utilizing our three deployment pathways: one, corporate carveouts; two, opportunistic buyouts; and



three, distressed investments. We remain confident that being armed with long-dated, locked up capital to take advantage of these long-term opportunities will accrue to the benefit of all of our investors.

The next area I would like to emphasize is our credit business. While private equity has always been core to Apollo's franchise and will continue to be, deep credit analysis has been fundamental to our investment strategy and we have oriented the firm this way since day one.

Many of you know that when I founded Apollo back in 1990 we initially managed capital for the Credit Lyonnais bank, with a broad mandate to invest up and down the capital structure in both equity and debt throughout differing economic cycles. Fast-forward to today and credit is our fastest-growing business segment with over \$100 billion in AUM across a variety of unconstrained credit products that span the liquidity and yield spectrum. The growth in our credit business stems from our ability to capitalize on opportunities arising from the financial crisis and also the subsequent regulatory changes affecting the capital markets coming out of the financial crisis.

There has been a wide variety of highly-compelling opportunities for firms like Apollo due to the fallout of traditional providers of capital, which have either gone out of business or have been forced to scale back their operations significantly. In addition, as traditional financial institutions have come under pressure to reduce headcount and shed non-core businesses, we have been able to build new businesses and acquire specialized teams of talented professionals, which have complemented our expertise in nine core industries. For example, within the last few years we have hired dedicated teams in energy mezzanine and emerging markets corporate debt, among others.

We have a deep understanding of the challenges in our LP space in trying to meet target return thresholds typically in the 7% to 8% range for pension funds, and we have built our business in part to provide customized portfolio solutions for them. We now manage more than \$14 billion of our clients' capital through strategic managed accounts, including \$900 million in two new mandates that we will fund in the second quarter. One is a \$500 million account from a large state pension fund and the other is a \$400 million account from a large sovereign wealth fund.

Generically, the mandates are focused on yield and opportunistic credit investing. These highly-customized, solutions-driven accounts leverage our expertise in unconstrained credit and aim to meet investment objectives that extend beyond traditional fixed income.

Just as we have developed a private equity investment strategy focused around three pathways that enable us to traverse market cycles and deploy capital, our approach to building our credit business has also been to assemble an extensive toolkit which will enable us to pursue a range of opportunities that span the liquidity and yield spectrum to address the risk and return needs of our clients. In fact, our strong relationship with Athene is a powerful example of how our capabilities on the yield end of that spectrum have grown over the past few years.

We believe that by marrying Athene's world-class insurance capabilities with Apollo's world-class asset management and other service capabilities, the end result is a compelling and differentiated insurance company business model. And as we have done since inception, we continue to support Athene's growth strategy as demonstrated more recently by our assistance in helping the Company raise more than \$1 billion of third-party equity capital from some of the world's most prominent institutional investors.

The last area I would like to highlight today relates to realizations. At a conference in the spring of last year, I was somewhat infamously quoted as saying that we were selling everything that was not nailed down. Here at Apollo since then it's no secret we have been very active in monetizing the existing investments of the funds we manage, but even I didn't foresee the remarkable pace of the activity to come.

To put some figures around it, we have returned approximately \$38 billion of capital and realized gains to our fund investors over the past two years, including more than \$22 billion in private equity in the last 18 months. The activity over the past 18 months alone has driven nearly \$6 in cash distributions per share to our shareholders. So the question now is what's available for potential future realizations within our funds' current PE portfolio.

At the end of the first quarter, the fair value of our PE funds was approximately \$22 billion. It is worth noting that the average fair value of our P portfolio on a quarterly basis since our IPO three years ago has been approximately \$25 billion. So despite the robust realization activity we've seen over the past year-and-a-half, a combination of value creation and new investment activity has provided a meaningful offset over time.

While there will certainly be quarterly fluctuations in the level of the portfolio because of the various stages of the investment process, i.e., deploying, growing, and harvesting, we don't believe all -- it doesn't always happen at the same time and at the same pace. Despite that, we believe this is a continuous cycle that is repeatable over the long term.

For now, in terms of harvesting, we intend to remain active in capitalizing on market conditions as appropriate. Given our capital markets insights across the Apollo platform, we believe we are well-positioned to take advantage of debt and equity opportunities as windows permit. Furthermore, when you couple our relatively mature private equity portfolio with other components of the firm, most notably our growing and scalable credit business that is generating more cash today than it has at any point in our history, we believe the result is an even more compelling distribution story.

Before I turn the call back over to Gary, I just wanted to take a step back and highlight the big picture that we never lose sight of here at Apollo. We've worked very hard to build a truly global alternative investment management firm with an outstanding brand and investment track record. The delivery of our strong performance to investors, coupled with the favorable secular tailwinds in our industry, including the search for yield, increasing allocations through alternatives, consolidations of GP relationships, and the shifting financial services landscape, all play to the strengths of Apollo.

As we are sitting here today, we have recently reloaded our dry powder in private equity with our largest fund ever. Our credit business continues to scale with the positive impact of Athene. Our earnings mix continues to evolve in favor of the management business, and the strength and continuity of our team is firmly aligned with the interests of our investors.

In summary, we believe we are well-positioned to capitalize on the range of opportunities that are in front of us. As we continue to grow our ever-expanding footprint across the alternative landscape, we expect our fund investors and shareholders to benefit for many more years to come. With that, Gary?

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

Thanks, Leon. I would just like to spend a few minutes reviewing some of the highlights across our business segments.

Starting with private equity, the funds maintained a strong pace of realization activity in the first quarter, which resulted in aggregate distributions of \$3 billion of capital to our fund investors. In the process, we earned nearly \$400 million of realized carry in private equity, which was a primary driver of our \$0.84 cash distribution this quarter.

Specifically, these realizations are driven by numerous transactions including secondary and/or block share sales of our fund's remaining interest in Constellium, as well as some of our funds' interests in Athlon, Berry Plastics, Noranda Aluminum, Norwegian Cruise Lines, and Rexnord.

Following these transactions, the funds we manage held the following. Funds V and VI collectively held 21.9 million shares of Berry Plastics. Fund VI held 20 million shares of Noranda, 35.9 million shares of Norwegian Cruise Lines, and 36.7 million shares of Rexnord. And Fund VII held 37.7 million shares of Athlon.

In addition, there were two realizations that were announced towards the end of the first quarter that closed just after quarter end, including a second area of Sprouts Farmers Markets and the IPO of Brit plc. Following these transactions, Fund VI held 37.7 million shares of Sprouts and Fund VII held 116.9 million shares of Brit.

At the end of March, 58% of the \$22 billion of fair value in the private equity portfolio we manage was held in publicly-traded securities, leaving our funds well-positioned for continued realizations on an opportunistic basis, as Leon just noted.

Regarding capital deployment within our private equity funds, activity moderated in the first quarter from the level seen in the fourth quarter of 2013, largely due to lower levels of follow-on investment activity. That said, first-quarter activity was driven by the announcement and close of the acquisition of CEC Entertainment, a public-to-private opportunistic transaction of a nationally-recognized leader in the family entertainment space.



So far in the second quarter we've announced and completed an investment in Caelus Energy Alaska, a new exploration and production company focused on Alaska oil and gas assets, formed in partnership with a talented veteran management team. Apollo Funds had the opportunity to invest up to \$1 billion in Caelus in the aggregate to develop the Company's existing assets and to pursue acquisitions in the Alaskan oil and gas market.

PE fundraising activity in the quarter included a \$325 million closing for Aion, our value-oriented India-focused joint venture fund with ICICI, bringing total fund commitments for Aion to \$700 million through quarter end. And we just held a final closing for this fund bringing total commitments to approximately \$825 million, positioning Aion as one of the largest India-focused funds to date.

Turning briefly to our credit business. At the end of the first quarter we continued to have more than \$100 billion of AUM and credit, which includes \$49 billion related to Athene, and that is exclusive of the amounts that are subadvised by Apollo; nearly \$24 billion in US performing credit; \$12 billion in structured credit; nearly \$8 billion in opportunistic credit; and more than \$8 billion in European credit strategies.

As Leon discussed, our credit franchise provides us with a powerful platform that enables us to offer our clients a broad range of unconstrained credit solutions to meet their needs across their risk/return spectrum. During the first quarter, fundraising activity of more than \$1 billion within credit was driven by the \$550 million final close of our second Financial Credit Investments fund, which is focused on insurance-related investing. This brings total fund commitments for this fund to more than \$1.5 billion, nearly triple the size of our first fund that was raised just two years ago.

Credit fundraising was also bolstered by commitments to several other credit funds totaling approximately \$500 million in aggregate.

Importantly, we remain active in deploying capital in a variety of differentiated credit investment opportunities. We provided several new disclosures within our press release this quarter, including dollars invested and uncalled commitments for our credit and real estate segments. These new disclosures highlight a particularly strong quarter for credit deployment among our drawdown type funds as several funds, including EPF II, FCI II, and COF III completed value-oriented opportunistic transactions.

For historical context, from 2010 through 2013, the credit funds we managed deployed approximately \$2.1 billion per year on average.

One transaction I wanted to highlight from the first quarter is EPF II's acquisition of a minority stake in Altamira, Banco Santander's real estate servicing and property management platform in Spain. This transaction is notable for a few reasons.

First, it is illustrative of how our funds are positioned to capitalize on the significant opportunities to acquire attractive assets and businesses across Europe. Second, it demonstrates the unique benefits of our integrated model and how we can leverage the synergies that exist between our credit real estate platforms.

Turning now to real estate, we remain active in real estate debt and during the first quarter the funds we managed deployed approximately \$400 million in first lien mortgage loans, mezzanine loans, and CMBS. On the equity side, we remain opportunistic across property types and geographies. Approximately 70% of our US private equity real estate funds base capital is now committed, and in Europe our joint venture with Ivanhoe Cambridge [in] prime residential has grown to more than \$500 million of invested capital with the recent purchase of two multifamily assets.

Additionally, our commercial mortgage REIT, ARI, just raised approximately \$150 million of additional equity last week. With that, I will turn the call over to Martin to discuss our financial results.

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

Thanks, Gary, and good morning again, everyone. Starting with our cash distribution, the \$0.84 per share that was declared for the first quarter includes our regular distribution of \$0.15 plus \$0.69 of other cash earnings. The additional amount above our regular distribution was primarily driven by carry from the sale of equity and debt investments held by our funds.

Turning to our management business, for the first quarter, Apollo's management business earned \$152 million of ENI versus \$113 million in the fourth quarter of 2013. The quarter-over-quarter increase was mainly driven by an increase in advisory and transaction fees, which were up \$61

million, primarily due to a \$28 million termination payment related to the EP Energy IPO, a \$12 million transaction fee related to co-investments in connection with EPF II's acquisition of Altamira from Banco Santander, as well as an increase in the monitoring fee we received from Athene, which I will discuss further in a moment.

Turning to expenses. First-quarter compensation costs were sequentially higher, primarily due to a non-cash expense of \$45.6 million in connection with the accelerated vesting on equity-based compensation related to our former president. This equity amortization expense was allocated across segments with \$18 million of private equity, \$23 million of credit, and \$4.5 million in real estate. In total, the one-time expense amounted to \$0.11 of pretax ENI during the quarter.

Nearly offsetting the increase in compensation costs was a \$40 million decline in non-compensation costs, which was primarily driven by a particularly light quarter of fund formation costs following an elevated level in the fourth quarter. 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 private equity portfolio appreciated by approximately 2% during the first quarter, which was driven by 3% appreciation in publicly-traded portfolio holdings and 1% appreciation in private holdings. This performance follows a strong fourth quarter, which saw the portfolio appreciate by 9% and a particularly strong 2013, which saw the portfolio appreciate by 49%.

Regarding portfolio company performance, the aggregate revenues for the Funds VI and VII portfolio companies were up 4.5% for the rolling 12-month period ending March 31, 2014, compared to the 12-month period ending December 31, 2013, while EBITDA was up by an estimated 1% over the same period.

Looking at the year-over-year comparison, aggregate revenues were up 4.3% for the 12-month period ending March 31, 2014, compared to the 12-month period ending March 31, 2013, while EBITDA was up by 2.4% over the same year-on-year comparison.

You may have noticed that our profit sharing expense ratios within the incentive business were elevated in the first quarter. This is driven by three items.

First, 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. The incentive pool tends to be more stable in nature and does not fluctuate with the level of unrealized carry in a given period, but rather is based on the carry performance of the business on a realized basis. So in periods like the first quarter where portfolio performance is more muted, particularly in PE, the incentive pool accrual within the overall profit share ratio is more pronounced.

The second driver relates to nuances around which funds drive carry earnings in any given quarter. In our PE segment, while our long-term blended profit share rate can be in the 40% to 45% range, excluding the incentive pool I just described, each fund has its own profit-sharing percentage that may be above or below that range. During the first quarter, Fund VII appreciated while Fund VI depreciated, which contributed to the elevated profit share ratio.

The third driver relates to a modification in our approach towards incentive compensation within our credit segment. We are more closely aligning total compensation for investment professionals with the profitability of the credit business as a whole rather than on a fund-by-fund basis. The result of this change created a \$16 million catch-up in our first-quarter results. Going forward, we expect the profit share ratio in our credit segment to be close to our private equity business.

Moving on to taxes, our first-quarter effective tax rate on ENI was 19%. Recall that our ENI tax provision calculation assumes all share conversion and reflects the relative earnings contribution of our management and incentive businesses, which continues to evolve with the growth of our firm. Additionally, we made a revision to the calculation of our income tax provision during the first quarter, which also resulted in modest provisions to prior periods.



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 March 31, 2014, which is slightly higher than December 31. As we have stated previously, we expect this percentage to increase gradually over time, provided that 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 continue to receive payment of monitoring fees on a quarterly basis through the end of 2014. For the first quarter this fee was \$59 million, which included a \$7 million catch-up that is not expected to recur. As a reminder, while this fee is additive to ENI, it is currently being accrued as a non-cash item.

Subsequent to quarter end, following the close of Athene's private placement, a portion of Apollo's accrued interest in Athene, which primarily related to the quarterly CNS fee that we had accumulated through year-end, was settled in shares of Athene. Including the CNS fee we earned in the first quarter, we now have approximately \$200 million of additional investment value on that balance sheet, which is not yet included in the \$557 million of balance sheet investments highlighted in our press release. Note that this amount excludes the \$121 million AAA gross carry receivable at March 31 that we expect to be paid in shares of Athene at a future date.

As it relates to the expected CNS fee for the remainder of the year, this fee will be settled in additional shares of Athene based on its valuation at the end of each quarter in arrears and will appear as incremental value on our balance sheet going forward.

One final note. As Gary alluded to earlier, we added several new disclosures in our press releases this quarter including carry-eligible AUM and carry-generated AUM, among others. We hope that you will find the presentation of these additional metrics helpful as you continue to evaluate our business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Carrier, Bank of America.

Mike Carrier - BofA Merrill Lynch - Analyst

Thanks, guys. Martin, maybe first question for you, just when we think about the distribution outlook -- and I think the base of the question is more given the shift in the credit business and how significant that business is versus, say, one or two years ago. But when you look at the capital that's in the ground, the distribution or the exit activity, is there some sense or some way, when you look at the fee earnings or the investment income and then the portion of incentive income that's being driven by interest dividends, that you can look at it as somewhat of a core run rate, assuming a fairly decent backdrop versus maybe what we experienced last year, where a lot of it was being driven by private equity, and as that moderates, just the shifting credit and what that can mean for the distribution outlook?

Martin Kelly - Apollo Global Management, LLC - CFO

Sure. So the growth in credit is driving both an increase in -- we will expect it to continue to drive an increase in both the management fee earnings as well as the incentive company. And so within credit there's different components.

The yield-oriented funds should generate stable and steady management fees, which will drive up the management fee, cash earnings, and distribution. And then the drawdown funds, or the promote funds within credit, which are focused on European distressed credit opportunities,

the insurance business, and others, will be a little similar to PE in that they will be episodic but over the longer term they will increase. So the way we think about it is rising credit drives both, but you need to look at the segments within credit to really think that through.

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

Mike, I would just add, if you look on page 19 of the press release where we break out the carry receivable, you can see the credit funds broken down by strategy. It's interesting to note that the carry this quarter was pretty evenly spread across the five different strategies we breakout here with strong realized carry coming out of non-performing loans as we harvest out of the first non-performing loan fund, but also saw strong realizations out of the performing credit bucket as well. I think you are seeing the carry spread across the various segments in credit, as Martin noted.

Mike Carrier - BofA Merrill Lynch - Analyst

Okay, that's helpful. Then maybe just as a follow-up, Leon, thanks for some of the color on what you guys are seeing in the markets. I think the one challenge that I think a lot of people have right now is when you look at the credit business -- and this is not just for you guys but for the industry -- there's a lot of structural trends that are pushing money in that direction, whether it's allocation shifts, demand for yield. But on the flipside you guys have said, and others have said it, that the market is still relatively frothy.

So I think when we look at the overall credit business and you look at the products or the assets where you can go after some of those opportunities that are more niche-y that you've mentioned versus areas that you might be holding back and waiting for more distressed opportunities, just wanted to get a sense of what is that mix where you can be active in the current backdrop, but there's obviously going to be a pool that you're going to be more active when you get better opportunities?

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

Look, I think that going back to when we began Apollo 24 years ago, we have tried to create a nexus between our PE and our credit businesses, and we have done this on the basis of being value-oriented. What does that mean? It means we like to buy good assets, good companies, good securities at a very good risk/reward.

In PE, we have been able to do that by developing multiple pathways to stay disciplined about value and not be in the mix of where most of our peers are, which is paying a 9.5 times EBITDA multiple. We have created our funds at 2 or 3 multiples lower by creating multiple pathways. And those pathways have included playing cycles well during economic downturns, through distress.

It has also been something we have done through preferring to deal with complexity, where others really aren't that involved and it's less competitive, and we do a lot of corporate carveouts. Finally, even our buyout business is very idiosyncratic, whether it's Hostess Twinkies or it's buying McGraw-Hill Education in a busted auction.

Likewise, that's our approach in credit. When you look at the yields today for investment grade and how much there is -- had been a flight to safety and you look at where senior loan market has been and you look at where the high-yield market has been, they are really at historic lows. What we have tried to do in building our credit business, which is now over \$100 billion, is to create, if you will, a Chinese menu of different products across the yield and liquidity spectrum.

We don't want to give up safety, but by going more complex, by being more illiquid in a lot of different types of products, we think that we can generate a real premium to the investment grade, more liquid cycle. That runs across a lot of what we are doing, whether it be everything we are doing in origination today, whether it be in the energy sector, in the healthcare sector. And it also has to do with a lot of our products like COF III, as you know, which goes into distress; it goes into levered loans; it goes into CLOs.



What we are trying to do is find a lot of different products which are still very safe, but where you can command real premiums in the high-single digits for some, in the low teens for others, and even in some European non-performing loans even into the high teens. And as with private equity, our view has always been we don't have a crystal ball. We can't forecast what the future holds. The key is to have a model, an operating model and a spectrum of products and pathways to alter risk/reward in our favor, whether it's in private equity or it's in the credit spectrum. And that's what we have been doing.

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

Yes, so to hit it directly -- it's Josh Harris -- the overvaluation of the market you are talking about is really on liquid-rated underwritten product, so we are tending to gravitate much more towards illiquid, unrated, directly-originated product. The other thing I would say is that Europe, there's a lot going on in Europe and there's some diamonds in the rough in Europe, and so Europe tends to be lumped together in some cases. We are also finding value in Europe, so that's the way I would characterize it more broadly.

There's still area -- even though the market is broadly overvalued because of the excess liquidity, if you are able to sort of deal with complexity and aggravation, as Leon mentioned, you can kind of find some good value in there.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Thanks. Leon, just on the same theme of complexity and aggravation and I guess carveouts, how do you see the M&A landscape shaping up, particularly for putting out capital from your private equity fund in the US? Do you expect that we should see some more M&A activity from US corporations and maybe carveouts as sort of a complement to that activity? Does that have something historically that you have seen and maybe you would expect going forward?

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

I believe that it's challenging today and less than robust in terms of traditional PE, and mostly that's because of easy money that's out there. Historically low rates, back to one of the highest levels of covenant-light on the lending side, and this has really tended to keep valuations very high for traditional or competitive auction product.

It is because of this that I am very, I guess, happy that we have developed the operating model we have and that our team is used to having to look elsewhere in terms of what they are doing. If you look at the three deals we have done this year, which aggregate about \$1 billion that we've put out, between a gaming, American Gaming, between -- I never get it right; Caelus Energy in Alaska -- Caelus or Chuck E. Cheese. We have been able to buy things that are in the 6 and 7 EBITDA multiple.

We have a lot of other things in our pipeline in those same ranges and we are tending to stay away from the more competitive products out there, because it is quite high right now in general. And the last thing I would say is that there are areas, as I mentioned in the prepared talk, that maybe Josh can speak to also in the consumer areas, especially, and in energy, whether it be upstream or downstream or midstream opportunities.

And finally in the financial sector where the delevering, massive delevering, still goes on in Europe and their opportunities here that's come out of that, those are areas that are still pretty fertile.

Josh, do you need to add to that?



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

I was just going to add that in terms of corporate M&A, which I think you asked about, corporate profit margins are recovering. They are at this point 10%. M&A is recovering. It's certainly below the peaks where it was. And so you are seeing kind of a recovery in M&A, although it's not looming.

So what you've got going on is that corporations are delevered. They are earning money. The monetary authorities have signaled that they are prepared to continue to put a lot of liquidity into the market, and growth is picking up and people are feeling pretty good. So this is the part of the cycle where corporate M&A picks up.

I don't think that -- I think corporate carveout tends to be 20% or 25% of our business, or 15% to 25% of our business year in/year out. So I don't know that the fact that corporations are buying more companies is going to really lead to -- that just tends to be the ebb and flow of corporate carveouts. So it's like a great robust environment for corporate M&A. That's not always as good for leverage buyouts because of the easy money environment we've got today. That tends to impact leverage buyouts a lot more expeditiously, a lot more strongly.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, and then I guess this question kind of for Martin but also just philosophically. Just in terms of the profit share, I guess if we look at Fund VIII and think about I guess the philosophy for profit-sharing, should we be thinking for current funds and in the future more sort of equity-based compensation or compensation that reflects more sort of overall profitability rather than more direct interest, if you will, in individual funds or strategies?

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

Yes on both those questions, Marc. I think for Fund VIII, the construct is to align the individuals with the funds for the fund overall; we do through that stock. This similar construct in the new credit plan that I mentioned. So we think that aligns shareholders, employees, and the fund together in the most appropriate manner.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Thank you very much. It's really nice to hear your commentary as well. I'm still curious, I guess yesterday or a day or so ago the SEC's Office of Compliance gave what I would argue was a relatively scathing review of some of the examinations they have been doing over the last couple of years for the private equity business.

I was just wondering, they seem to take each line item to task. I was wondering if you could talk a little bit about the regulatory landscape and how Apollo might be positioned, and what kind of risk or opportunities that might be associated with that?

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

Bill, it's Martin. Let me start that. Firstly on the SEC review, before I move on to the other question, our understanding of the primary issue there is it's a question of transparency of fees and expenses to our investors, rather than the practice itself. We are committed to providing our investors with complete transparency, and we believe that in our disclosures and our communications with our LPs represents best practice in the industry, and we are not concerned about it.

A few things I would note. One is we have been a registered advisor since 2007. And on the fee side, we meet frequently with the advisory boards of the funds that we manage comprised of ERPs and provide detailed information. And then we have a robust process for looking at expense allocations and approving that internally.

In terms of the comment around valuations, I am not sure what exactly that's getting at, but we have an established evaluation process and committee structure and we validate that valuation externally. And, ultimately, all compensation that's paid out of the incentive company is paid on a realized cash basis versus a mark-to-market basis.

So that, I think, addresses the SEC comments in the last couple of days. More broadly, we welcome regulation for the reason that we think it differentiates the larger, established funds with a solid infrastructure and governance from others that don't. And on the opportunity side, business side, it opens up the opportunities for us to grow our business where others are stepping back.

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

To fill in where -- to fill in, obviously the massive regulation of the banking sector is, in essence, creating significant opportunity in credit for firms like Apollo and their institutional clients to step in in many of the illiquid areas, non-rated areas, directly originated areas. And so that regulatory climate is a backdrop is facilitating a lot of the growth in credit right now and leaving a void. It is a void that we are comfortable stepping into.

I think it also has the benefit systematically of spreading risk out and so I think that's something that is recognized by the regulators as well. So I think that's the genesis of probably the biggest opportunity we have across our platform.

Bill Katz - *Citigroup - Analyst*

That's helpful. Then just sort of a follow-up, just looking at the math. The realization story still seems to be quite good which is putting some downward pressure on fee-paying AUM and your asset gatherings. It's going to be tough to sort of comp up against the Fund VIII.

So as you look out over the next 12 to 24 months, what is going to be the key to get the fund -- fee-paying AUM growing again?

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

Credit, credit, credit. I mean, I think the big opportunity we have is that our institutional clients really are starting to recognize that the investment-grade markets, the high-yield markets, the tradable markets, the government markets, the mortgage markets are basically overvalued. And that the illiquid, more idiosyncratic, non-rated, directly-originated markets that we are playing in area providing the best risk return.

The equity markets are aggressively priced, the private equity markets are very aggressively priced, and the credit markets are very aggressively priced, the trading credit markets. So if you are a pension fund, if you are a sovereign wealth fund, if you are a high net worth individual, you are looking for a place to hide in what is otherwise an overvalued environment and sort of illiquid, opportunistic credit is really, in my opinion, the best opportunity in the world right now. And so that -- there is a lot of money.

Once you start to look at -- once institutions start looking at their fixed income buckets, which are 4 to 5 -- 4 to 6 times the size of their alternative buckets, and they begin to move those buckets down to move it into alternative credit, we have enormous growth opportunity. And so I do feel very optimistic that we will be able to raise a lot of capital going forward in the next few years. Clearly, I am comping up against an \$18.5 billion fund so that's a big number, and you're right.

Operator

Chris Harris, Wells Fargo Securities.



Chris Harris - Wells Fargo Securities - Analyst

Thanks. First question just kind of a big picture question for you. If you think about where the business is today -- and it has obviously evolved quite dramatically over the last 10 years. But if you look at it and you think about the market environment and maybe what some of the peers might be doing, are there any capabilities or strategies that you guys kind of look at that say, hey, maybe that's something that Apollo should get into in a bigger way or we should perhaps enter that area?

How do you think whether -- how you are positioned relative to the competition really influences any of that thinking at all?

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

Sure. Look, right now and actually since the early '90s we have been in three businesses. We've been in PE, we've been in credit, and we've been in real estate, and we have really stuck to our knitting over 24 years in those areas.

If I were to assess them, I would say we are in best-in-class today in private equity. We have kind of delivered returns that are twice the top quartile pretty consistently, and I think we have a differentiated story there and we have a big new fund.

But I don't think that that's terribly scalable. I do think it's going to continue to be highly profitable. If you look at Fund VI, the remainder of it is 70% public in terms of the portfolio makeup and if you look at Fund VII it's over 60% already in public position. So you will see continued realizations there as long as the public markets continue to cooperate.

And we will be [receding] with \$18 billion of new capital. Frankly, the challenge there will be to stay best-in-class.

Then you look at credit. Again, this has kind of been in our DNA going back to all the founders' roots from Drexel, from when we started with Credit Lyonnais managing a high-yield portfolio for them, doing distress, managing senior loans. I would fast-forward today and that's over \$100 billion of AUM with a dozen different products now that we are managing.

I guess our partners here -- as we have put a better and better and stronger team in place and we look at the world and we look at the secular changes that have gone on, which, frankly, have really all been in our favor, we don't see any reason why that can't be a large multiple, frankly, of where we are today at \$100 billion. Clearly, that's through all the different products we've been developing. The teams we have put together, the needs of, as Josh pointed out, the pension fund world, the need for returns and yield, our strategic alliance with Athene, all of that is extremely promising.

Then we look at real estate and I'd say that that's an area we also see an awful lot of promise. I look at what our brethren at Blackstone have accomplished; my hat is off to them. We would be happy to be a young cousin to them and we think there is the opportunity to do that.

We think that given the strength and team and strategy we have in private equity, again the team, the secular trends, and the scale of opportunity and credit. And then some real upside in real estate going forward. We are very happy with where we are positioned today.

Chris Harris - Wells Fargo Securities - Analyst

Helpful, Leon. Thank you.

Operator

Robert Lee, KBW.



Ann Dai - Keefe, Bruyette & Woods - Analyst

Good morning. This is Ann Dai standing in for Rob Lee. I just had two quick questions on credit.

So taking a look at the carry-eligible AUM versus carry-generating AUM disclosure that you guys provided -- and thank you for that, it's very helpful -- would you be able to give some color on which funds make up the difference between carry-generating and carry-eligible AUMs within that segment?

Also related to credit fundraising, just looking at your emerging markets debt platform, are there certain markets that look especially attractive in today's environment? And what you think the site of the opportunity is there?

Martin Kelly - Apollo Global Management, LLC - CFO

Ann, let me address the first question. The difference between carry-eligible and carry-generating within credit itself is actually spread across a variety of funds. It includes EPF, but it also includes quite a number of other drawdown-style funds. EPF is the largest piece of it, but there's many other [initiatives] to that difference.

Fund VIII is the obvious large difference between the two within PE. And then, in addition to that, there is this \$4 billion of dry powder in funds that are already in carry, so that dry powder has the potential to become carry-generating at some point.

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

In terms of emerging markets, we are just getting started, but we have hired -- we have partnered with a highly skilled team. Emerging markets today are being severely impacted by the tapering that's going on here in the US and particularly those markets that have been running current account deficits and budget deficits. But the market tend to paint these things with a broad brush and there are [miscalculations] going on.

We're probably not going to speak specifically about which markets we are looking at, but we see it as a highly scalable opportunity where we have a great team and where it plays to our strength of unearthing opportunities where there's real volatility. And the market tends to paint with a broad brush macro versus micro with credit analysis.

Ann Dai - Keefe, Bruyette & Woods - Analyst

Great, thank you. Just a really general follow-up on fundraising. Understood that a lot of the strength in fundraising is going to come from credit in the next -- in the short term. But is there a way to size the opportunities for fundraising in maybe the next year or so, just kind of relative to how strong the fundraising was in the last couple of years in the context of your strategic goals and how much dry powder you have in current market demand?

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

We try not to give forward-looking estimates like that, so unfortunately we have to politely decline.

Ann Dai - Keefe, Bruyette & Woods - Analyst

Understood. Thank you for taking my call.

Operator

Chris Kotowski, Oppenheimer and Company.

Chris Kotowski - Oppenheimer & Co. - Analyst

Good morning. At the outset Leon highlighted two big overarching themes -- energy and the changing financial services industry -- and I wonder if you could flesh that out a bit more. In particular on the financial services, are you talking about buying assets out of financial institutions or buying whole businesses?

I guess what I have in mind is today you see an announcement from Barclays that they are getting rid of \$90 billion of RWAs from FICC and other detritus of the financial crisis, but they are also getting rid of their European retail business. Would you be interested in either or both, or --? Is that the kind of thing you are thinking about?

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

We're not going to obviously comment on specific transactions, but bottom line is it's all of the above. In other words, Gary talked earlier about a transaction we did with Santander where we acquired their servicing platform so that's clearly a business. We definitely acquired other consumer lending businesses from banks, particularly in Europe, in Spain and Ireland, and then leveraged those businesses to buy other loans.

There's also a huge volume of both performing and nonperforming loans coming out of the banks, particularly in Europe again, relative to consumer receivables, relative to mortgage loans, relative to commercial loans and relative to shipping loans. And so again, we are also acquiring loans.

The banks are -- we are trying to solve problems for the banking sector. It's everything from reg cap trades to loans to businesses, and so the idea is to set up the capability to absorb whatever the banking sector needs you to buy.

And in order to do that you need special expertise. You need servicing. You need the ability to analyze thousands of loans and so we are set up to absorb whatever is needed. We are going to look at everything that comes out, and clearly we have very good relationships with the banking sector.

In terms of the energy sector, particularly here in the US, the US shale renaissance has created literally over a \$2 trillion capital need here in the US where there are very high IRR, return on assets, ability and there's not enough capital and expertise to be able to exploit it in the short term. If you think about the S&P energy sector, it's less than \$2 trillion. It's higher market cap of that sector.

And so even for companies that are as large as the integrated oil companies, they are having to not pursue IRR opportunities as great as 25% or 30%, because they just got too much other capital need at higher return. And so the crumbs that are falling off that table in the upstream energy sector here in North America as the US goes -- as the US and Canada go from being higher-cost producers of gas to the lowest cost in the world, where literally you are competing with people like Qatar and Saudi Arabia and in oil you're going through very, very high costs to the middle, that's creating an enormous opportunity.

Those PE firms that have set themselves up with teams of scientists -- landmen, reserve engineers for the petroleum experts -- all over the continent are going to be able to take advantage of that opportunity and put a lot of capital to work. And Apollo is very well positioned relative to the expertise we have built up and relative to the size of that opportunity and our ability to take down big opportunities and exploit that.

And then also is the case in terms of lending. There's also a big need for mezzanine debt. In many cases, the midsize oil companies are not able to access the high-yield market because it's very complicated to figure out what their reserves are worth. And so we can use that same expertise to build a lending business where we can get actually quite nice returns. So that is a very large sector where there appears to be a good value, even though the overall market is overvalued, as we talked about earlier.



Chris Kotowski - *Oppenheimer & Co. - Analyst*

Just as a follow-up, on the financial services side, could one in theory buy a whole bank in a private equity fund, or does that automatically make you a bank holding company, which I assume would be undesirable?

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

Yes, you have to structure it -- your ownership has to be below certain levels. So you probably wouldn't acquire 100% of the equity of a bank. You'd probably want to keep it below certain levels to not be a bank holding company.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, thank you. That's it for me.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Thanks, most of my questions have already been asked and answered. But just with respect to the managed account mandates, appreciate the color there. I'd love to just get a little bit of insight around the backlog. I know the mandates can be lumpy, but just if you could characterize the level of conversations there and any other trends. Is there any difference between demand for pension funds or sovereign wealth, or is it broad-based? Just some additional color would be helpful.

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

Yes, there is a significant pipeline and it comes back to the earlier macro trends that we talked about, which is those very large institutions. In some cases they are pension funds and in some cases they are sovereign wealth; think the largest institutions in the world are waking up and saying that there's just better risk return in alternative credit, opportunistic credit, illiquid credit, non-rated credit.

They each -- in cases of very large institutional clients, they are prepared to give you enough capital so that you will work with them to customize the account from a risk perspective, from a geography perspective, liquid versus illiquid. And so we are seeing the opportunity play out both in co-mingled fund, because in some cases institutions want other investors with them, as well as in the case of managed accounts. And so it's just another way of facilitating your clients' access to these opportunities which appear to be well-priced relative to other forms of credit and even equity.

So I would say that the backlog is robust, both in terms of the managed account side as well as the co-mingled funds side. The managed accounts tend to be larger. Gary mentioned \$400 million one, a \$500 million one. That's probably -- if you get too much below that it becomes hard for us to make it economic, but where someone is prepared to do that plus we will work with them to customize.

Devin Ryan - *JMP Securities - Analyst*

Got it, thanks a lot. Then just with respect to the IPO window, it has obviously been little bit shaky here in recent weeks. I know that every investment that you have is a bit unique, but as you are thinking about the pace of realizations is that concerning to you at all? Or do you just think that activity simply just shifts to the M&A market, assuming M&A remains active here?



Just trying to think about how realizations could flow from here and some of the moving parts there, particularly with the IPO window getting a little bit more challenged.

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

I would say, look, there's no question that the IPO market getting challenging does affect realization. Now having said that, as Leon mentioned, a large part of our portfolio is already public and so, therefore, it becomes a matter of that's less a focus of the IPO market and more a focus of the broad equity market. When the broad equity market starts to trends down, that's certainly going to affect returns and valuation and your willingness to sell.

Our general view is -- and certainly the IPO market does limit your ability to take companies public and that will affect realization. I think you should be careful not to get caught up on weekly or monthly fluctuations. I think we are looking at this more broadly. You have to ask yourself is -- I think you have to ask yourself more broadly when is liquidity going to start to come out of the system?

Speaking -- I think we see that continuing for 12 to -- for a period of time, so I don't think we believe that the realization cycle is shutting down right now. I think it's just maybe not as robust as it was last year.

Devin Ryan - *JMP Securities - Analyst*

Got it. Okay, great. Appreciate the color, guys.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Thanks for taking the time to answer my question, too. Credit, credit, credit so that's where the growth is coming from. I guess what's the roadmap there?

Is it about slicing and dicing more finely and launching more focused products? Or is it more about what you've done in private equity since your inception of just raising bigger and bigger and bigger, newer vintage funds and that really drives the growth?

Then really, what's the risk? It seems like the demand is there. Is it really the investment opportunities where the risk to success lies? Thanks.

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

In terms of the slicing and dicing, I would say that the -- again, there's a broad macro opportunity for alternative managers and credit managers and their clients to step in the shoes of the receding banking sector as it gets smaller. I think that that is going to play out.

There are going to be more -- there are more products in credit than in private equity, so for sure credit is a lot more nuanced. There's many, many more products. Having said that -- and clients want to access it differently. Some clients are more interested in more idiosyncratic opportunities. Other clients are more interested in yield, and so you have to be willing to offer clients the ability to play the market as they wish.

Having said that, we continue to think that being able to be opportunistic and move in and out of different sectors is where we can really shine the best. And we do explain that to our clients. Some of them want that and some of them don't.

But our broad footprint, our broad and global footprint, our broad ability to think through all kind of different credit, whether it be senior debt, mezzanine debt, distressed, bank debt, allows us to move quickly and in essence move where the market is providing the best opportunity. And so I think many, many clients buy that.

And so we are seeing these go-anywhere -- the most of our growth is in these go-anywhere credit products, which allow us to do what we do best, which is to maneuver around what the market is allowing in terms of risk return.

In terms of the risk in credit, I think the risk for us as an organization -- I think we are very well positioned with the right brand, the right expertise, and the right investment culture and the right client base. I think the risk is just execution. We need to keep our discipline. We need to keep doing what we are doing.

There's more growth -- for us, our ability to grow is limited not by our ability to get money. Our ability to grow is limited by our ability to execute and achieve good returns for our clients. So we need to keep focused on our risk/return and doing -- and putting in and making good investments. That is a daily -- every day we come to work and think about that.

Ken Worthington - JPMorgan - Analyst

Great, thank you very much.

Operator

Ladies and gentlemen, we've reached our allotted time for questions. Patrick Davitt, Autonomous.

Patrick Davitt - Autonomous Research - Analyst

Thanks for taking the question. On the strategic accounts, obviously it has gotten to be a larger portion of your AUM and probably will continue to be. Could you talk a little bit about the mechanics of that? Does having such a customized account create a need for more professionals per dollar of AUM? Or is it more about as deals come through your current strategies, if it makes sense for a certain account, it just gets a piece of it?

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

Yes, I don't think -- certainly there is some complexity to structuring these things in terms of different allocation methodologies and geographies. But once you have done a bunch of these, they become relatively -- there's only so many things you're going to have to tackle.

I wouldn't worry about adding too many added professionals to be able to manage this. I think our business is generally complex, but I think our platform is well situated to handle it. So that's the way that I would answer. I forget the other part of your question.

Patrick Davitt - Autonomous Research - Analyst

I think that answers it. The other part really was in a lot of cases I would imagine that you have your strategies, you have your professionals in those strategies. And as they source deals if a deal makes sense for a certain account they may get a piece of that deal, even if it wasn't being sourced particularly for one account.



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

Exactly. We are very careful about allocation policy. We spend a lot of time on it and clearly, if there are overlapping mandates, it's allocated appropriately and quantitatively and objectively based on a process that is very transparent to our investors. It's an issue obviously that investors want to hear about and we explain it very carefully and follow a process.

Patrick Davitt - *Autonomous Research - Analyst*

Great. Then just finally, you mentioned a couple of realizations post 1Q. As you have in the past, can you kind of give us an update of where the booked realizations per share are at this point?

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

Sure, Patrick. The amount of \$0.11 per share from both those transactions that we highlighted in the prepared remarks.

Patrick Davitt - *Autonomous Research - Analyst*

Thanks a lot.

Operator

This concludes the question-and-answer session. I will now turn the call back over to Gary Stein for any closing or additional remarks.

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

Thanks. On behalf of everybody here at Apollo, thanks very much for joining the call today. As we said earlier, if you have any follow-up questions, please feel free to follow up with Noah Dunn or myself.

Thanks very much.

Operator

Thank you. This concludes today's Apollo Global Management's 2014 first-quarter earnings conference call. You may disconnect your lines at this time and have a wonderful day.

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