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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management's 2015 third-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 of Corporate Communications*

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Josh Harris, Cofounder and Senior Managing Director, and Martin Kelly, Chief Financial Officer.

Earlier this morning, we reported non-GAAP economic net income of $0.26 per share and distributable earnings to common and equivalent holders of $0.36 per share for the third quarter, of which $0.35 per share was declared as a cash distribution.

Before I hand the call over to Josh, I wanted to remind you that today's conference call may include forward-looking statements and projections. And we ask that you refer to our most recent SEC filings for factors that could cause actual results to differ materially from these statements and projections as well as risk factors relating to our business.

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, which are reconciled to GAAP figures in our third-quarter earnings presentation.

This conference call is copyrighted property and may not be duplicated, reproduced, or rebroadcast without our consent. As usual, if you have questions about any information in the earnings release presentation or on this call, please feel free to follow up with me or Noah Gunn.

With that, I would like to turn the call over to Josh Harris, Cofounder and Senior Managing Director of Apollo Global Management.

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

Thanks, Gary, and good morning, everyone. Despite a challenging and complex market backdrop during the third quarter in which we saw weak equity markets with the S&P down 8%, sluggish credit markets with leveraged loans and high yield down low to mid-single digits, and ongoing volatility in energy with oil down 25%, the funds we manage performed relatively well and we continue to identify opportunities for growth at Apollo.

I'd like to focus my remarks this morning on providing you with an update on a few key business drivers and some of our active strategic initiatives. Starting with fundraising, we generated inflows of approximately $3.3 billion during the quarter, which came from a variety of our investment strategies across the Apollo platform and reflect the continued growth and diversification of our business.

We received $1.3 billion of commitments from the first closing of our second natural resources bond in private equity, which remains in the market and already exceeds the total size of our first natural resource fund. As announced previously, we received another $500 million from our strategic relationship with Texas Retirement System towards a $1 billion credit mandate.

Our success in delivering differentiated returns through customized managed accounts led to two new credit mandates in the quarter from two large non-US pension funds totaling approximately $540 million. In addition, existing mandates added $150 million to their accounts. We held a $450 million final close for our third structured credit recovery fund, bringing the total fund's size to approximately $1.2 billion, meaningfully larger than its predecessors.

We also continue to see net inflows into some of our open-ended strategies, including our credit hedge fund and total return fund. The public commercial mortgage REIT we manage -- ARI -- raised $350 million in a private stock transaction with a sovereign wealth fund during the quarter.

Lastly, we have begun to scale up our three retail-oriented subadvisory mandates, which include Oppenheimer, Waddell & Reed, and K2. Today, Apollo's credit funds are subadvising on approximately $100 million for those mutual funds with the opportunity to subadvise on additional assets as these funds growth.

Turning to capital deployment, we invested $3.9 billion across the platform during the quarter. Deployment in private equity totaled $1.4 billion, where funds we manage closed on simultaneous acquisitions of Protection 1 and ASG, two alarm services companies. The funds we manage also made follow-on investments in select distressed situations as well as in our funds portfolio of energy-related asset buildups.

In credit, the funds we manage deployed $1.8 billion across a variety of strategies, including pan-European distress lending, CLO debt and equity, private lending, syndicated bank loans, mezzanine lending, and energy debt.

One example of the different ways in which we pursue investment opportunities is Alteri, which is a joint venture formed last year to focus on stressed and distressed retail situations in Europe. This group is led by a number of retail industry veterans and has already completed several transactions and continues to evaluate a number of potential investments.

In real estate, our funds and accounts deployed more than $600 million, primarily in commercial real estate debt investments. Across the Apollo platform, our funds currently have nearly $30 billion of dry powder available to invest. We continue to evaluate an active pipeline of opportunities to put additional capital to work.

Since the funds we manage generally have long-dated capital investment horizons, we believe that the recent market volatility creates value-oriented opportunities and increasingly opens up potential stress and distressed investments that will unfold over the months ahead in a number of industry verticals. During these times, you should expect our contrarian style of investing to drive us to lean into situations from which others may shy away. In certain cases where market values are falling, but our conviction remains, our funds are buying more to build on existing positions at a lower average cost.

It was demonstrated by our long-term track record in private equity. This contrarian approach has proven to be a highly rewarding strategy and is a hallmark of our investment style. One current example is the energy sector, an area in which we have deep industry and technical expertise.

During this period of dislocation, where pricing of the underlying commodity has declined significantly but industry participants haven't yet fully absorb the impact, we are tactically picking our spots and working to identify buying opportunities. We continue to believe this is a very attractive area to be raising and investing capital, and our expectation is that the opportunity set for deployment will expand over the next 6 to 18 months.

I would like to highlight two additional growth opportunities our clients pursued during the quarter, which we believe are strategic to the Apollo platform. One growth initiative we have discussed previously is Midcap's financial penetration into middle-market directly originated credit space.

The end of the third quarter, Midcap had $3.6 billion of assets. They recently announced the acquisition of an asset portfolio from General Electric and Mubadala. This is expected to close in the fourth quarter and will double the size of their balance sheet, taking it up to approximately $7 billion.

We remain very optimistic about the growth trajectory of this vehicle, since Midcap has plenty of runway to continue to grow organically and strategically. Moreover, the Mubadala GE transaction will provide another opportunity for Midcap to raise additional equity and debt for this permanent capital vehicle.

Another growth initiative is Athene, which continued to execute on its business plan and drive value creation. The sequential increase in its valuation this quarter reflects the demonstrated evolution and success of their business model and a number of other recent milestones, including recent upgrades with Athene now having an A rating from S&P, Fitch, and A.M. Best.; completion of its first acquisition in the German market; issuance of its inaugural funding agreement backed note, which will provide Athene with another channel for future organic growth; substantial progress in the completion of its financial remediation project, which allowed for the issuance of its 2014 and Q2 2015 GAAP financials; and very importantly, key senior hires, including Bill Wheeler, who joined as President after spending 17 years at MetLife, where he served most recently as President of the Americas and Marty Klein, who will be joining Athene in the next few weeks as CFO after serving in that same capacity at Genworth.

We believe the various strategic initiatives we are pursuing represent powerful examples of our ability to innovate and navigate complexity and to ultimately drive growth and diversification for Apollo.

I'd like to wrap up my comments by reemphasizing a point we stressed on our last call. We have been very focused on growing the management business contribution to the overall profitability of the Firm, particularly since it provides a steady and predictable source of cash flow. We believe that the strategic growth initiatives at Midcap and Athene are supportive of this pursuit.

The revenues we generate in our management business are primarily derived from management fees we earn from long-lived assets we manage, more than $75 billion of which are in permanent capitals vehicles as of September 30. Year to date, our management business is on pace to generate more than $1 per share of annualized cash flow, which in the context of our current share price represents a predictable base yield of nearly 5.5%.

This is the highest base yield in our peer group on a comparable fee-related earnings metric. It is also more than double the forward yield of the S&P 500, which stands at 2.3%, and meaningfully above the average traditional asset manager at 3.2%. This strong level of stable, steady earnings is before any of the upside cash earnings potential from our incentive business, where we have more than $80 billion of carry-eligible assets under management.

To highlight the strength of our management business through a slightly different lens, according to Company reports, all but one of the public traditional asset managers that have reported results for the third quarter thus far have reported net outflows with an average sequential decline in total AUM of 6% and related average sequential declines in management fees of 3%.

Today, we reported net inflows and sequential growth in our fee-generating AUM of more than 2% and stable management fee revenue. These data points highlight the inherent strength of our business model and the resiliency of our core earnings stream. Our belief is that the market will develop a greater appreciation of these important characteristics over time -- not just for Apollo, but the sector as a whole.

With that, I would like to turn the call over to Martin for some additional comments. Thanks.

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

Thanks, Josh, and good morning again, everyone. Starting with our economic earnings for the quarter, in the management business, we earned $79 million of economic income, down from $92 million in the prior quarter. The sequential decline was primarily driven by the absence of some nonrecurring transaction fees earned in the second quarter as well as a modest increase in compensation costs as we continue to build out the platform.

We currently expect to incur placement fees in the range of $6 million to $8 million in the fourth quarter, principally related to our second natural resources fund. Third-quarter non-compensation expenses included various deal-related expenses totaling $5 million related to our previously announced transactions with AR Global and RCS Capital.

The closing of these transactions remain subject to the satisfaction of a number of conditions. We incurred $4 million in the second quarter and we expect to incur additional expenses in the fourth quarter relating to these transactions.

Turning to the incentive business, in private equity, the 3.7% depreciation in core funds during the quarter was driven by 13.5% depreciation and publicly traded portfolio company holdings, partially offset by 2.3% depreciation in private holdings. Excluding energy-related investments, the most significant of which is EP Energy, the publicly traded holdings of our private equity funds would have been flat for the quarter and the overall portfolio would have appreciated by approximately 3%.

In credit, the investment performance of the funds we manage was modestly negative during the quarter: down 80 basis points on a gross basis and down 90 basis points on a net basis, excluding the non-subadvised assets of Athene. If we excluded energy-related unrealized losses from the Apollo managed funds within credit for the quarter, performance would have improved by approximately 100 basis points.

Due to negative marks in certain of our funds this quarter, we had approximately $6 billion of carry-eligible assets within credit move below their hurdle. The majority of these assets are in credit hedge funds and CLOs. IN total, we have $19 billion of invested carry-eligible credit assets that stood below their hurdle or high water mark as of September 30. Nearly $11 billion of these assets are less than 2.5% away from reaching their respective hurdles, at which point those assets would again become carry-generating.

Lastly, on the incentive business, there was a discretionary incentive pool compensation accrual in the quarter of $21 million within realized profit sharing expense.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter. First, within other income in the incentive business, we recognized a $92 million increase in the valuation of our direct and indirect ownership stake of Athene. The 20% increase in Athene's valuation quarter over quarter was driven by the various factors Josh highlighted during his remarks.

In dollar terms, Apollo's 9.2% economic interest in Athene is valued at $566 million on our balance sheet as of September 30. Note that this amount excludes the $178 million gross carried interest receivable related to AAA as of September 30 that we expect to be paid in shares of Athene at a future date.

Next, the percentage of Athene-related assets subadvised by Apollo or invested in Apollo managed funds or accounts was approximately 24% or $14.6 billion as of September 30. We expect the subadvised assets under management to continue to increase gradually over time as long as we continue to perform well in providing asset management services to Athene and also identify opportunities to redeploy their investment portfolio.

Lastly, regarding Athene, you may have seen that they closed on the acquisition of Delta Lloyd Deutschland early this month, their first non-US acquisition, which added $6 billion of assets to their balance sheet. We are in discussions with DLD for Apollo to provide asset management services. Please note, however, that we expect the scope and associated fees for such services to be less than the existing arrangement with Athene Asset Management.

With regard to our cash distribution, the $0.35 we declared today was driven by a $0.24 pre-tax contribution from our management business or $0.25 net of one-time deal-related expenses and $0.10 of net cash carry, of which $0.04 resulted from a tax-related distribution from Fund VI.

One last point I'd like to mention relates to the escrow position of our private equity funds. Fund VI remains in escrow as of September 30 and has approximately $0.27 of cash in escrow potentially available for distribution at a future date.

As a reminder, escrow is a standard provision in our industry and occurs when the fair value of the remaining investments in the fund falls below 115% of the fund's remaining capital. This typically occurs as a fund gets closer to the end of its life and is holding investments in their later stages. Given the negative unrealized mark to market adjustments within the private equity portfolio during the third quarter, Funds V, VII, and ANRP were also in escrow as of September 30. The largest fund of the group, Fund VII, has an escrow ratio of 110% and would require approximately 4% of appreciation to fully exit its escrow position.

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) Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

In terms of Midcap, I guess maybe how should we think about the growth there going forward? And is Athene may be a good analogous situation, where start out with an idea and assets, it grows through some big chunky deals? Or was the GE transaction and growth through GE and that type of growth a one off?

And then maybe talk about next steps for Midcap. Does it go out and raise equity right now and wait to suss out the next deal or could there be other steps? Thanks.

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

I think it is somewhat -- it is -- it is hard to predict large chunky acquisitions, but there are some out there. Clearly, GE was a very large chunky transaction and maybe the largest and highest quality, but there is definitely stuff out there.

It is an analogous situation in terms of there just being lots to do and lots of growth, and certainly we are going to continue to raise. There is a lot of interest in Midcap from our investors and this is -- look, this plays on a lot of themes we have been talking about, which is that the banks to a large extent are moving back from this space, which is middle-market senior secured lending. And so Midcap is stepping right into that void.

And between the returns that you can earn on the assets and a little bit of the leverage you can get, you can generate very, very attractive returns for investors. And so the investors are interested in supporting that. And so we will -- and the platform that we have designed is an advantage over others trying to get in the space.

So I think we've got critical mass; we have a great management team. We have lots of investor interest and there are lots of people getting out of the business, so I think all that will allow us to grow that platform quickly.

Ken Worthington - *JPMorgan - Analyst*

Got it. Thanks. And then maybe in terms of your thoughts on capital return, I think this is something that you have been maybe contemplating. The stock price is depressed. KKR just rejiggered its way of returning capital to investors.

So as you think about where the stock price is, how much cash you're generating, and what the opportunities are, any thoughts? Do you think there is still merit in maybe contemplating a change or is the current path really the obvious right path? Thanks.

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

We've thought about buybacks a lot and there's some pluses and minuses from our point of view. On the one hand, our stock is clearly undervalued with really no value. The way I think about it, there is no value ascribed to the incentive business at this point. That's notwithstanding $80 billion that we can put in, some of which is in the money.

And generally, we have gone through these cycles before and I know it may unnerve everyone when you see us go out -- go into escrow. But the reality is we have seen this multiple times before. And I have to really scratch my head and think about any situation -- there is very few situations where we haven't had enough in the carry in these funds because this is what we do and this is what we are good at. And so the fact that there is no value to our incentive business is very frustrating and therefore the stock is undervalued, so we have to consider buybacks.

On the other hand, we have a number of potential strategic uses for our cash. And while we have $850 million of cash on our balance sheet, we currently need $650 million to fund the future commitments. And I appreciate those commitments are over time, but we like our ratings on our debt and we're going to be -- manage the AGM's balance sheet fiscally prudently. And look to not have downgrades.

And so therefore, we have got all these opportunities to substantially grow the platform strategically. And we don't have an endless supply of cash. And so we have to balance our opportunity set with our buyback.

And in addition, we have been working to increase our public flow, which is now at 30%. And I know -- as someone who has spent a bunch of time with many investors on the phone, I know that there is debate whether that matters or it doesn't matter.

But I can tell you it does matter. It does matter to some of the larger investors that want to get positions in our stock. And so in that -- from that perspective, buybacks would be counterproductive. And so we are constantly thinking about it, but at this point, we are going to stay the course.

I would just point out we have been net share settling with employee stock distributions because a lot of our employees -- some of their comp is in stock. And that is akin to a share buyback because you issue shares net of tax instead of issuing gross shares and letting them sell in the market.

And we spent about $75 million over the last 3 quarters to fund this and the effect of this is that we are lowering our share count quarter to quarter. So I appreciate that's not -- there is no drums. There is no trumpet. It is like a buyback, but the reality is we are buying back stock, and I think in a more technically efficient way, if you will. So that's my long-winded answer, but it is -- it's a question that we constantly contemplating.

Ken Worthington - *JPMorgan - Analyst*

Awesome. Thank you for the comments.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Just on the distribution maybe outlook, I just wanted to get your thoughts. When you think about the funds that are in escrow versus -- looks like the management business we are seeing more growth than we have over the past maybe two years.

And then even on the incentive business, just wanted to get your thoughts on what portion of that, particularly maybe on the credit side, that could be viewed as more recurring -- meaning, you don't have to sell something to drive that. It could be like interest dividends versus something that is going to be transaction-oriented?

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

Sure. So Mike, it's Martin. I will answer that. I guess there is three components to the distribution as you know. So firstly on the management business, I think we have been pretty clear about our focus on growing management company revenues, maintaining or improving the margin over time, and increasing the cash earnings coming out of the management company in a predictable manner that creates a floor to the yield. So that's the management company fee.

So on PE, the maturity of the funds we have is all quite different from each other. Fund VI is in escrow. It's got a small handful of investments that have barbelled in terms of their performance, and I would expect that Fund VI will remain in escrow for quite some time.

If we sell -- as I think you know, escrow is affected by changes in value and the sequence in which you sell assets and whether those assets are above cost or below cost. And so as we look forward and our view changes from time to time, as we look forward, Fund VI is probably in escrow for the foreseeable future.

Fund VII is a different story. Fund VII's escrow last quarter was above 130% and it dropped to 110% this quarter, really for 2 reasons. One was marks on the publics, mostly EP, which dropped it by 10 points. And then we did a dividend recap on Hostess, which was a high value to low cost sale. And so it is at 110%. It could easily come out of escrow based simply on marks.

And then there is $5 billion of money in the ground in Fund VII to be harvested over time. 70% of that is private and so there is a -- and there is a much larger number of companies in the portfolio. So there is a healthy amount of realizations to come. Forecasting that is something that we do, but it changes. But I could quite -- there is certainly a plausible case for that to come out of escrow simply based on marks, given the price change we have had recently.

So that's PE. And then on credit, we look at the returns that we quoted, the 80 basis point overall washing credit for quarter reserve net marks and carry or coupons. If you look at the construction of assets -- carry assets and credit, there is $45 billion of carry-eligible assets in credit, and a bit under 40% of that today is earning carry. A bit more than 40% of that is invested, but has carry potential.

And you can see in the earnings release, we stratify the appreciation that's needed to get assets back into carry. We do that for funds that are more than 24 months old. If you do it for all funds, we have about $11 billion of AUM in credit that is within 250 basis point of getting into carry.

We also have a number of funds in credit that have annual resets on their hurdle. And so the reset happens January 1 and next year is a new year. When you throw all that together, it is -- to get meaningful distributions out of credit, we have to get the assets back into carry. Some of the marks on the [few] point have to exceed the press, which on average 6% 8%.

And there is a lot of money in the ground in dry powder that can and should earn carry over time, but it's dependent on getting assets back into carry or the annual reset funds earning their keep, if you like, by earning 2% a quarter.

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

Let me just give my take on it. I will just try and simplify it. There is $81 billion of carry-eligible AUM. We have all this in our earnings release. Round numbers, a third of it is currently generating carry. Round numbers, a third of it is uninvested, and round numbers, a little less than a third or the balance is not currently generating carry.

Most of that is likely to generate carry. I think Fund VI is a successful fund. It is largely realized; it is relatively small. So again, just having lived through cycles before, I would be very surprised if ultimately a lot of that doesn't generate carry. And so I view this to a large extent as temporary.

I remember where our funds were marked during the financial crisis and it was -- this is not even -- it was wildly significantly more below carry hurdle, and all of those funds ended up generating carry. And when you are a contrarian investor, and again, there is no -- I can't predict the future, but when you are a contrarian investor and you are buying into a dip, guess what happens? You actually have some mark to market losses and that affects the value of your funds.

And so this is just what we do. And so -- but -- so we will just have to prove it over time. But we have done it for the last 25 years and that's one of the reasons why our returns are consistently above our peers and why our LPs consistently come back to our fund.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, that's helpful. And then just on the -- I guess on the deployment side, this quarter, activity picked up and then it looks like even the pipeline, it is pretty active. Just wanted to get a sense; it seems like the credit markets or the financing markets are a little bit more challenging.

Just wanted to get your sense both because on the private equity side and the credit side, you're active. Just what you guys are seeing and when you are deploying that capital, how the terms are shaking out?

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

Look, both the high-yield market and the bank debt market backed up. Certainly the high-yield market has come back a bit, and -- but the -- during the volatility in the high-yield market and even the bank debt market backed up, it hasn't really retraced that much. That unnerved a bunch of people and so it led to a bunch of investments -- and even distrust, which has been not very interesting.

I will be honest with you: it took a leg down. A bunch of credits that were on the bubble took a leg down, and we have been buying for the first time really -- we have been dipping our toe in distress and buying some stuff. And so you are -- the volatility in the credit markets is allowing us to put capital to work in more interesting situations. I think from our point of view, we would rather have another leg down. That would be helpful.

And so it is not -- it is certainly not -- the floodgates haven't opened in distress, but we are starting to see some interesting stuff, finally. What needed to happen is a bunch of the people that have short-term unlocked up capital needed to be cleaned out and lose money, and I think that has happened.

I think particularly in energy and natural resources, when you look at it, there was a leg down in oil. Everyone plowed right into some of the stressed credit names, and guess what? The leg down continued and got worse and people lost a bunch of money. And so that led to unwinding of certain things and not only in energy, but across the board.

And you saw some larger financings -- and I don't want to comment on specific names -- get backed up. And so we are sitting there with a lot of capital and waiting. And when things get backed up today, even in the BB space, they get backed up materially because the liquidity in the system, if you will, is lower. And so they have to back up into opportunistic territory.

And so things can go from a 6% price stock to 10% price stock pretty quickly. And that's where on BB credits and that's where things get interesting. And so we are seeing some of that, but the reality is the last week or two of the markets have been -- this month has been a rally.

So again, you are saying volatility and so forth and so on. And we're just -- we are taking advantage of it where we can on a daily basis and certainly it does help our deployment.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

Operator

Luke Montgomery, Bernstein Research.

Luke Montgomery - *Bernstein Research - Analyst*

Just coming back to the comments you made just a second ago about the deployment in the energy sector. If I hear you correctly, you think we are now in the cusp of the credit problems you wanted to see to accelerate your interest in the space?

And then I guess along with that, assuming we are there, how would you think about allocating those deals to Fund VIII versus the side natural resources fund you just closed?

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

First of all, we would never wish credit woes on anyone. But I think the market volatility in energy, which has gone on for longer than people expected, so I would say -- here is what I would answer, which is the price of oil went down a lot more than the price of debt and the price -- than the cost of debt and the price of equity.

And so what you saw last year was almost a halving of the price of oil, but yet the equity markets and the debt markets didn't react to it and there was a lot of issuance. And that allowed many of the companies to Band-Aid their liquidity needs for some period of time.

The people that actually bought all that have been really, really -- that is been marked down pretty materially. And so the markets to a large extent now are much more discerning about energy names. And so we are starting to see more interesting things happen. But again, it is not a full floodgate yet, but we are starting to see it.

And the capital intensity of these companies is large enough that they have to keep either selling assets or issuing debt or equity to survive. You can't slow down your capital programs and not in many cases to outrun those needs without really hurting your business.

And so certainly it's helping us and it is helping is not -- you asked about the two funds you managed are private equity funds, and it is pretty simple with those funds. In the case of those private equity funds, they buy private equity or they buy distressed for control.

And in the distressed for control space in energy, it's still -- it's not a floodgate, but there are some things to do. And they allocate pro rata -- they allocate based on the desired position size relative to those funds. It's a whole objective process that we run here.

But you didn't in your question reference our credit business, which is either distressed not for control or stressed or even performing credit that might backup. The BB example that goes from 6% to 10%, and we are seeing almost as much or more opportunity in that area, but it's across the board in the case of energy.

And so I think we will see more opportunity. And the good news from our point of view is that not a lot of people -- it's very hard to read a financial statement and understand an oil company or gas company. Because what really matters you can understand some of it, but the actual scientific research you have to do on the underlying reserves in the ground and the engineering you have to do is not readily available to all players. And so I think we believe that having all these people in the field allows us to do research that is very difficult to do and provides us an advantage in discerning which companies have good reserves and which companies have higher cost reserves.

And so that advantage we think will reflect in our ability to buy those companies that will do well in a lower-priced oil and gas environment versus the market. And so therefore we think we have some alpha here, but we will obviously have to prove it by generating returns.

Luke Montgomery - *Bernstein Research - Analyst*

Okay, thanks. Really helpful. And then I realize it is still very early days, but as you sat with the AR Capital acquisition for a bit longer, has anything changed in your thinking about its strategic possibilities and how that will help you scale in real estate? What challenges are you working through? And then any thoughts on inorganic opportunities, get more involved in opportunistic real estate equity?

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

Yes, thanks for the question on AR, Luke. I will just say that at this point, as we noted in the prepared remarks, the deal is still subject to a number of closing conditions. And so we really can't say anything beyond what we said in the press release and the presentation that we posted back in August.

In terms of opportunistic real estate, I think you want to take that one, Josh.

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

Yes, opportunistic real estate, we continue to find opportunities in various platforms across Apollo, whether it be certainly -- I would say the most interesting part from our point of view of opportunistic real estate we are finding in Europe and commercial real estate, where large portfolios of assets are being sold at discounted cap rates because of some of the regulations that are hitting the banks there. And so your ability -- so we have the ability to transact across dozens, hundreds, in some cases thousands of properties at the same time. We have that capability. And so as a result of being able to buy in bulk, we're getting pretty discounted cap rates.

I would say in the US, there's selective, opportunistic real estate opportunities. Some of the core markets are getting at this point in the cycle, as you might expect, relatively fully valued, so we're playing -- in some cases, we think the arbitrage between some of the core markets and some of the secondary markets is interesting. And we're looking in some of those secondary markets.

Luke Montgomery - *Bernstein Research - Analyst*

Okay, thank you very much.

Operator

Robert Lee, KBW.

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

Thanks for taking my questions. The first one I guess is a simple maybe accounting question for Martin. Just noticed again the quarter, the other payables to derive the distribution were essentially zero compared to where they had been running year over year. So should we expect that there will be a step up in that in Q4 that obviously would have some impact on the Q4 distribution?

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

Thanks, Rob. I guess there is a couple of factors that go into the difference that you know. The primary one is balance sheet returns. So when we earn money from our own balance sheet, [GP6], we tend to not distribute that, but hold it to reinvest back in the platform. And during the quarter, there wasn't much of that, so that drove a high payout rate on distributable cash for SSCE.

I think over the turn, I would revert to a more normalized payout rate of low 90%s, 90%, low 90%s, but we don't target a payout rate necessarily. We just look at it in terms of balance sheet returns and then holding back. And that derives the cap rate.

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

Actually, I think -- I was actually referring to -- and I apologize for not being clearer. On page 10, where you go through the shareholder distribution, the taxes and related payables, last year, they were $68 million year to date. This year, they are essentially zero, so those rolled down to the dividend, the distribution. So should we think there will be some step up in that?

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

Right. Yes, so that goes to our overall tax profile, which -- I guess the difference year on year is two things. And it affects both our ENI tax rate and our cash tax rate. One is last year, as you recall, we were earning a significant transaction fee from Athene, which was non-cash but taxable, so we had to pay taxes on that. We don't have that this year.

And then this year, we have a series of deductions for compensation that was awarded to employees many years ago back when the 144A transaction was done. And that's just finally vesting and being delivered, and it is tax-deductible now. So is there is a skew between the two years for that reason.

Going forward, I would go back to the comments we made at the investor day, which is again over the turn of the time, ENI tax rate I would say -- I would expect to be in the 10% to 20% range and the cash tax rate high single-digits to low double.

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

Okay, thanks. And then maybe as a follow-up. I guess I apologize -- I think I missed Josh's comments earlier, but I guess I'm trying to understand the write-up in Athene in the quarter, particularly since if I look at AAA, it was actually down. And understanding there are two different securities, but since AAA's sole predominant it is Athene, I guess I was little surprised that there would be that size write-up in the quarter?

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

So a lot has happened at Athene in a short space of time. And all the factors that Josh outlined in his prepared remarks around a new management team, ratings from the three agencies, accessing new distribution channels, first funding agreement back notes, and catching up with financial statements. And, so the state of the company has evolved from a rolled up series of blocks into a operating company that is preparing for an IPO.

So we moved off of what we had -- the method we used to value Athene, which was embedded value, to a book value multiple. And so that -- all of those factors combine to create that uplift in the value.

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

Okay, great. And if I could, maybe just one last question. It's I guess a strategic question. So you talked about some of the initiatives and more liquid strategies with Waddell, Oppenheimer, K2 as asset growth opportunities. But conceptually, I guess I'm thinking there is a open-end mutual fund asset.

While there is a potential for a lot of assets, it is certainly an inferior asset to all the permanent capital vehicles you talk about: more modest fees; it's less permanent; opens you up to more volatile flows. To some extent, it maybe uses capacity in terms of your team's time.

How do you really think about that besides obviously the asset growth? But is it really something that you really want to grow a lot or it is a nice add-on, but I guess I struggle with that a little bit.

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

Yes, okay. So most of our -- I would say that there are -- most of our capital is in more locked up structures and some of it is stressed/distressed, like the higher octane more alpha-oriented stuff. There is a real opportunity, though in the BB, BBB space, and we are not subject to -- almost none of our vehicles have -- I think I will actually go as far to say none of our vehicles, none, have daily liquidity.

So in certain cases, the assets that we are buying, particularly the higher credit quality assets from our point of view, which is our crossover BB, BBB, even into A, those things actually are quarterly lockups for that with some penalty and so forth. We believe that that structure is logical and makes sense and we think we can make money.

So we are not -- even in the context of some of the small amount of subadvising we are doing with mutual funds, we're pretty careful to not mismatch the assets that we own and the liabilities. And so we're not really taking the same redemption risks that a mutual fund -- [risk is varied]. We're not subjecting ourselves to the type of redemptions that a large mutual fund complex would have to deal with.

Operator

Glenn Schorr, Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

Just one quick follow-up on the Athene mark. Just curious: what book multiple are you using and more importantly, will it float with its public comps now quarterly now that you are on that valuation floor process?

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

It is 1.2 times book, and that is benchmarked against public comps.

THOMSON REUTERS

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

And I would point you to the AAA financial statements, which are posted up on the Apollo alternative assets website. The financials were posted last night. There is actually a pretty lengthy description in there about the valuation methodology and the 1.2 times book value multiple. And it is on page 34 of the financials.

Glenn Schorr - *Evercore ISI - Analyst*

Okay, no problem. I was just curious on that. And then on real estate, I think my first glance was, wow, in that market to be up 4.6% in the quarter is pretty good. Is that a function of just being in some of the right REIT sectors, which did well in the quarter? Just curious what drove the good real estate performance?

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

It was specific properties that are quite seasoned, and are either nearing an exit or there is good comps that we can look to to value them. So it's not particular to a particular REIT sector, but it's individual assets that we own that there is decent transparency around comps on.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Maybe just a couple bigger picture questions. So the first, the potential of higher interest rates, I know you guys have addressed it, but it seems that the market perception is still that higher interest rates will create a headwind for the business in aggregate.

So I guess maybe if you can help us walk through some of the various parts of the business that will be impacted. And then how much management actually goes around preparing for whether rates will rise or even on the other hand managing for a lower-for-longer environment?

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

Yes, look, I mean, again, so just going through it, in private equity, whether it be real estate or the -- if higher rates mean less of that -- like less liquidity, less availability of financing, generally what happens there is that the purchase price multiples ultimately follow that.

I think a lot of what's driving what is an overvalued environment, as at least I believe and have said many times, is the excess liquidity in the market, starting with the quantitative easing that's going on. And so what -- even the perception that rates are going to go up creates volatility and pull back in the credit markets, which ultimately helps across credit immediately because we buy stocks at higher returns and private equity over time because we -- prices come down.

And so where it would obviously hurt is on exit. And so if you think -- when you say how much management goes into it, the answer is we have been preparing for it for -- by basically -- we're basically through the excess distribution cycle and now we are in the asset accumulation cycle.

And so clearly we have been betting that there will be more volatility and lower values over time. And clearly, lower for longer is not -- we're a value investor. Lower for longer is not a good environment for a value investor, period, full stop.

But having said, that our platform -- I'm actually very proud of both what we have been able to do in private equity and credit and real estate in terms of accumulating assets at very low multiples in an otherwise overvalued environment. Our private equity portfolio, the average -- if you look at our flagship Fund VIII, the average multiple in the industry in private equity is over 10 times, and our multiples pretty much -- is plus or minus 6.

So we're sitting there at a 4 multiple point discount. And that's sort of -- I could give you that same story across all of our businesses. And so we're getting better at our craft in terms of being able to navigate through finding areas of arbitrage, whether they be energy or financial services and buying from banks that are getting smaller.

Within the context of this overvalued environment, you have to find things to buy. And we're getting better at that, but notwithstanding that it is definitely not the best environment. So we -- again, perception versus reality, just having done this for 25 years, rising rates might create some mark to market write-downs for us. But generally when that happens, we buy a lot more than we sell, and that ends up being very good for value creation.

Devin Ryan - *JMP Securities - Analyst*

Okay, thanks for running through all of that. And then second question, just around the conversation on capital allocation. There has been an increased focus again around potential changes to tax treatment on carry interest. We may be a long ways away from that, if it all, but how important is that favorable tax treatment as a factor into how you guys think about the attractiveness of the outsized dividend that you pay now versus other options for that capital?

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

It's not -- it doesn't affect -- okay, so changes in carried interest, again, like we have tried to communicate this and sometimes we haven't been successful. But changes in carried interest do not affect the financial statements of Apollo, nor does it affect what we pay in dividends. What it does the fact is ultimately how much in taxes people that own the carried interest pay. And so the effect would be on employees.

And then I will just answer the second question on your mind, which is I still believe that private equity will be a very attractive place for smart people and young people to work. On the margin, could you lose an employee or two over changing the carried interest? Maybe. But by and large, I don't see it having a significant effect other than the obvious effect, which is people will make less money.

But it is not -- it gets a lot of play and discussion that in my -- and it is -- there's a lot of noise out there relative to the valuation of the stock in dividends and earnings. And it's just not true.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

I just have a follow-up here on Athene. Can you remind us what the level of asset sensitivity is of Athene's balance sheet and also the approximate duration of its liabilities?

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

It's short. It's structurally short.

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

By a little.

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

By little. Yes, 4 and change versus 5 and change on the asset and liability side.

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

It is pretty matched. It is a little bit short. It is little short.

Craig Siegenthaler - *Credit Suisse - Analyst*

And then just as my follow-up here on real estate, how do you think about the right size this business and scale? And I'm sure the answer is larger, but you had a really strong return this quarter, but the business was still producing a loss. I am just wondering when do you get at scale in this business?

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

I would say on the debt side, I think we're scaling -- the answer is we would like to be a lot bigger than we are. I would say clearly when you look at the size of our private equity business relative to certainly Blackstone, but a number of other players, there's a lot of room to go.

But it is like everything else: we started from a small base. We are growing it, but we are growing off of a small base. And so yes, the breakeven nature of it on our financial statement is not lost on me nor on anyone here. And we do think that there is leveragability to the business and it is growing.

I would say that when you include other -- real estate that is within credits, the business is actually a $17 billion business, and so it is not small. And we are thinking about how we reflect that part of the business more accurately on our financial statements and stay tuned on that.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Question for you guys on the management fee business. Clearly, really nice to see the increased focus on that earning stream and a more, I guess, subdued carry realization environment. So as we look out over the next year or so, I don't know if I heard it on the call, but any way you can help us summarize what the pipeline of AUM that is not paying management fee is, how quickly you think you guys can deploy it, obviously outside of the pending AR Capital acquisition. Because it sounds like there's a couple things going on there.

So, A, the size of that and then the incremental margins that you think that is going to come in is the management fee ENI. Thanks.

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

Good morning. So the total amount of AUM with fee potential but not earning management fees today is about $11 billion. Most of that is in credit -- $8 billion or $9 billion of that is in credit. And that's just given the structure of many of the credit funds where we are paid as we deploy versus as we raise capital.

So I would look to the run rate of deployment in credit [AIs] as the best sort of guide to how quickly that is put to work, which is $5.5 billion for the last 12 months and annualizing to about the same number for the first nine months.

Alex Blostein - *Goldman Sachs - Analyst*

Okay. And just the incremental margin on that, is that keeping the overall fee-related margin constant over the last several quarters, so there is a pickup on the back of it?

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

Yes, I guess. There is a wide range in credit. The types of funds that are drawdown style funds where we get paid as we invest tend to be higher fees, but then we are also growing out the yield-oriented part of the business, which is lower fees. Like Midcap. So I guess use a blended average, but it is quite a wide spectrum.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Thanks for taking the question. I guess just more broadly on the distribution, how should we be thinking about the potential monetization outlook over the next 12 to 24 months in PE now that Fund VII is in escrow? And then just also in credit too, it looked like the monetizations in credit have been stepping down in each of the past four quarters. Just any color around that would be helpful.

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

Truthfully, we're largely through -- if you look at our assets on the ground and we're -- first of all, Fund VII is very close to carry, very close to escrow. So one tickup in the marks and you're not in escrow, you are -- I think we lay out in our presentation how close it is and Martin has said.

So I would say that that's a liquidating fund and we expect -- whether or not we sell into the -- will depend on market volatility. So you are unfortunately asking me questions that are very difficult to answer. So that's probably the best that I would be able to do.

Michael Cyprys - *Morgan Stanley - Analyst*

And on the credit side?

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

Again, there has been volatility in credit -- I would unfortunately give you the same answer. Although certainly in credit, clearly there is a large amount of interest expense cash flow that is coming out of that portfolio on a current basis. So it's not really as leveraged, if you will, or as volatile as the PE carry. It's much more predictable in many cases just based on interest expense.

But relative to what we are going to sell or not sell, tell me if the market is going to go up or down? If the market goes up, we're going to sell a lot. And if the market goes down, we'd probably be buying more than we are selling if history is any guide.

Operator

Chris Harris, Wells Fargo.

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

The drop in carry AUM, we have already been discussing it. But just wondering if you guys could inform us whether part of that drop was related to performance of energy investments in those funds?

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

Yes.

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

Okay. Any color you could share on what the concentration of energy is in those particular funds?

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

I can give it to you across the platform. And so -- which is probably the best guide. We have about $6 billion in the ground in energy today across the Firm, and about $2.5 billion of that is PE and $3.5 billion of that is credit. And so we have been actively buying in credit and as the marks have gone down, which is what we do.

We also have -- we have a lot of dry powder to put to work, which we would do selectively when the time comes. But for sure it is a part of it.

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

Got it. And real quick: any update on quarter-to-date realizations?

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

To date, we have sold a couple of small investments, but they have not created any distributable cash.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Most of my questions have been answered. Maybe just, Josh, a different angle on the KKR move yesterday on the distribution side of it, moving to a fixed distribution. Just I guess in big picture, what is your view on that? Is that something that Apollo has ever considered? And then do you think it opens the debate a little bit more for the alternative firms, including yourself, to look at becoming a C-Corp from the partnership structure?

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

Yes, look, it is very -- obviously, we watch all of our competitors very closely. And it is probably not appropriate for me to speculate on why KKR did what they did. Certainly our strategy is very different and there are many roads to Rome, right? Maybe not everyone has to have the same strategy to be successful.

From our point of view, we continue to be an asset-light model and we continue to believe that distributing nearly all of our cash flow to our shareholders and generating big dividends is the right strategy for us. And we will certainly watch what everyone does and if there is -- if it is compelling, and we're always looking and researching at better ways to create shareholder value. But right now, we are -- we believe in our strategy.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, that's helpful. That's all for me. Thanks.

Operator

Eric Berg, RBC Capital Markets.

Eric Berg - *RBC Capital Markets - Analyst*

Josh, in thinking about the building out of the permanent capital businesses as rapidly and as aggressively as you have, is this really about, at least in part, attracting new investors who would like to become owners in your Company, but can't stomach the volatility? Or is this something that your existing shareholders have asked for or both?

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

I would say that certainly I would say permanent capital vehicles are generally -- there's some investment opportunities that are longer term in nature, even longer term than traditional private equity funds, which are quite long term in nature. And so to take advantage of those investment opportunities, permanent capital vehicles make sense.

Secondly, in many cases, there are potential public exits or strategic exits for things that are built up in a company structure at premiums to book value versus in a fund structure. And so as a result of those factors, investors -- and certainly there are investors that prefer those structures for their own reasons.

And so for all those reasons, it certainly makes sense to consider permanent capital vehicles in the context of all the other tools that you have in your toolbox. And in certain situations, avail yourself of those tools to generate better returns and more efficient structure for your investors.

On the other side, I don't believe the market yet is recognizing it, but I do believe that it is having a permanent capital base is -- it's sustainable, where you don't have to even from -- sing for your supper every five years, if you will. I think that that is -- I think that derisks the entity and so therefore, it is puzzling to me that we don't get any credit for it and no one talks about it.

But yes, I do believe it is better. I think we will talk about it increasingly because we think it is something that differentiates us and that investors haven't yet factored in.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you.

Operator

Thank you. That does conclude the Q&A portion of today's call. I will now return the call to Gary Stein for any additional or closing remarks.

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

Thanks, operator, and thanks again, everyone, for joining us this morning. As always, if you have any follow-up questions, please feel free to circle back to Noah Gunn or myself.

Operator

Thank you for participating in the Apollo Global Management's 2015 third-quarter earnings conference call. You may now disconnect.
