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APO - Q3 2016 Apollo Global Management LLC Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Apollo Global Management's 2016 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. Welcome to our third quarter earnings call and thanks for joining us. Sitting around the table with me this morning are Josh Harris, Co-founder and Senior Managing Director, and Martin Kelly, our Chief Financial Officer. As a reminder, this call may include forward-looking statements and projections which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We will be discussing certain non-GAAP measures on this call which management believes are relevant to assess the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our third quarter 2016 earnings presentation, which is available on the Apollo website.

Earlier this morning for the third quarter we reported GAAP net income of $0.50 per share. We also reported economic net income of $0.58 per share and distributable earnings to common and equivalent holders totaled $0.36 per share, $0.35 of which was declared for the quarter's distribution. If you have any questions about the information provided within the earnings presentation or on this call please feel free to follow up with me or Noah Gunn. With that, I'd like to turn the call over to Josh.

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

Thanks, Gary, and good morning, everyone. I would like to take this opportunity to walk through a few key drivers of our business that produced our strong third quarter results, reflected positive investment performance, significant capital deployment and continued asset growth. Starting with investment performance, the funds we manage generated positive results with credit up 3.9%, private equity up 2.6% and real estate up 1.4% respectively. In credit, the positive performance was broad-based. Our drawdown funds, which represent approximately 40% of our carry eligible credit assets, generated gross returns of 4.6%, bolstered by investments held in our European principle finance and financial credit investments businesses.

In addition, our liquid and performing funds, which also represent about 40% of our carry eligible credit assets, delivered a 3.6% gross return. In private equity the 2.6% appreciation we saw across the portfolio was driven by our funds, private portfolio Company holdings, which appreciated 4.5% but were partially offset by declines in public portfolio Company holdings. Fund VIII continued to display positive momentum appreciating by 6% during the quarter and bringing gross and net IRRs to 27% and 13% respectively.

From inception, since Fund VIII is still in its deployment period, we expect the IR spread between gross and net to compress over time. As a result of strong investment performance in both private equity and credit during the quarter and over the past year there has been significant growth in carry-generating assets. At this time last year, $28 billion, or approximately one-third of our carry eligible [AUM] was generated in carry. Over the past year, the pool of assets has nearly doubled to $51 billion, representing almost two-thirds of our total carry eligible assets. Looking at this another way, based on current marks $0.84 of every carry eligible dollar in the [ground] today is generated carry.

We believe that this dynamic of carry eligible assets progressing to carry generating status is critical in understanding the earnings potential of our business. If we continue to produce strong investment performance and our funds accrete in value, we will produce meaningfully higher amounts of carry income than we would have just 12 months ago. Turing the capital deployment, the robust levels of activity we've seen so far this year continued in the third quarter. The funds we managed, together with co-investment partnerships, deployed or committed more than $5 billion in aggregate investments across the Apollo's platform. Year-to-date, the funds we managed have deployed more than $12 billion and we are currently on pace to deploy more capital in 2016 than any other year in our history.

This has primarily been driven by our private equity business as Fund VIII has maintained an above average investment pace reflecting deal flow that has been in the works over the past couple of years. We understand some of you may be wondering how our funds have successfully deployed this level of capital in a market where valuations remain elevated given our value-oriented approach. As one of the fundamental tests of our investment style, I am pleased to note that we believe we have maintained our value-oriented investment discipline through this period of heightened activity. The average creation multiple of Fund VIII remains at less than six times adjusted EBITDA, significantly below industry averages.

We believe that we possess several competitive advantages at Apollo that have enabled us to accomplish this level of deal flow, which has included more than 10 transactions over the past 10 months. First, we have a willingness to tackle complexity and create solutions to uncover value in situations that others may shy away from. Second, we have a proven ability to privately place debt and preferred securities to support the financing of our funds transactions. Our broker dealer and capital markets capability play a valuable role, particularly when traditional sources of financing pull back. And it is highly complementary in environments such as the current one where financing markets are robust. So far in 2016 approximately 450 different institutions have bought more than $40 billion of debt issued by portfolio companies to help finance our funds recent private equity transactions. And approximately 70% of those institutions have participated in multiple transactions sponsored by Apollo funds this year.

Lastly, the size of Fund VIII, coupled with equity co-invest interest from our strong relationships with leading investors, has allowed us to engage in larger transactions or investments that can be scaled up over time. This dynamic has allowed us to pursue opportunities which are not feasible for many other funds. We believe a combination of these competitive advantages were on display in each of the transactions which we closed in the third quarter, including Diamond Resorts, one of the largest timeshare operators, Outerwall, a provider of two recognizable consumer service brands, Redbox and Coinstar, AmQuip and Maxim Crane -- two lifting services businesses that were combined to create a sizable market participants -- and Constellis, a leading private security company. Other deals currently pending include Rackspace and Apollo Education.

At the end of September, Fund VIII was 65% committed and we have a pipeline of other potential investment opportunities that remain strong. I'd like to continue the call pipe providing some commentary around asset growth and fund rating. We generated more than $7 billion in inflows in the third quarter, which was partially offset by a reduction in leverage, primarily in connection with the closing of the ARI AMTG transaction. The quarters inflows were driven by various products and businesses. Within credit there was a $3.5 billion -- there were $3.5 billion of new assets related to Athene which grew assets under management to $72 billion during the quarter, up nearly 20% from a year ago. Athene's growing during the quarter resulted from retail origination activity, new flow business from reinsurance clients and favorable market appreciation.

We raised an additional $1.1 billion across a variety of liquid and performing credit strategies during the quarter. Two notable items included nearly $500 million for our total return strategy and nearly $400 million for CLO's. As a reminder, total return is an unconstrained credit mandate designed to take advantage of sourcing and underwriting capabilities of the entire liquid end of Apollo's credit business. And it is becoming and increasingly important strategic platform. Total return is approaching its three year track record and is seeing increased traction in consultant channels.

Within private equity, we raised $1 billion incrementally for our second natural resources fund, bringing total commitments for that fund to $3.4 billion, more than doubled the size of our first vintage. Fundraising will likely wrap up in the fourth quarter with modest incremental commitments expected. In addition, we raised $250 million of capital in equity co-investment partnerships to help finance the Diamond Resort transaction. Beyond the quarter's activity, there are several other products in the market currently or likely to be in the market soon.

In credit there are two items worth noting. First, we're in the process of raising capital for our latest vintage of our Financial Credit Investments fund series, or FCI, a credit draw down product which focuses on insurance linked securities. We have raised $400 million to date and we're hopeful the fund will match the size of its predecessor, which raised $1.6 billion in total commitments. Next, we're also in the market with our third vintage in the European Principle Finance fund series, which is primarily focused on buying portfolios of assets and businesses from financial institutions in Europe. Its predecessor received $3.4 billion in total commitments and we are hopeful the third vintage will meet or exceed that size with the first close expected to take place later this quarter.

In private equity, as Fund VIII continues to deploy capital at the pace I discussed earlier, we currently anticipate the fundraising process for our next flagship fund to launch in the fourth quarter. Fundraising for this product is expected to be completed in 2017. We assume it will be similar size to the nearly $18.5 billion raised for Fund VII. We would expect the addition of a product of that scale to add considerably to fee-generating assets to our platform and be meaningfully accretive to our management business earnings in 2018 and beyond.

We are extraordinarily proud of the work our team has done deploying Fund VIII's investments with a rigorous investment discipline that is yielding strong and early returns. Now I will turn it over to Martin for some it additional comments. Martin?

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

Thanks, Josh, and good morning, again, everyone. Started with our economic earnings for the quarter, the $231 million, or $0.58 per share, of total ENI in the quarter was driven by strong performance in both our management and incentive businesses. In the management business, we earned $130 million of economic income, which was fueled by rising management fees, strong transaction and advisory fee revenues and sequentially lower expenses. The sequential growth in management fees included approximately $14 million of one-time catch up fees earned on new capital that was raised for natural resources during the quarter. Non-compensation expenses decreased during the quarter due to the absence of one-time items from the second quarter that did not return.

Due to ongoing fundraising initiatives, particularly our third European Principle Finance fund that Josh mentioned earlier, we currently expect to incur distribution related [placement] fees in the fourth quarter of approximately $20 million to $25 million. Importantly, we expect that these expenses will be more than offset by the growth in management fees resulting from EPF III within the first year of its multi-year life. In the incentive business we earned $152 million of economic income during the quarter, which was driven by three factors: positive investment performance in private equity, which produced $58 million of net carried; positive investment [from which] in credit, which produced $64 million of net carry; and appreciation in the value of Athene. In private equity, carry income was driven by gains in Fund VIII, offsetting depreciation in Funds VI and VII. Fund VIII further distance itself from it's preferred return threshold earning $62 million of catch up carry at an 80% rate as well as $64 million of carry at a normal 20% rate.

As we mentioned last quarter, Fund VIII is in the position of being carry generating while still deploying a considerable amount of capital. For this reason, and given the dynamics of marching forward in time to keep pace with the preferred return hurdle as well as uncertain future portfolio marks, it's still possible the fund's net IRR could moderate to the catch up carry territory over the coming quarters. Investment performance in our credit business at 3.9% drove strong carry income and led to an increase in carry generating AUM. The carry income was primarily generated from our opportunistic drawdown funds as well as our credit hedge funds. The sequential increase in the valuation of Athene was driven by the appreciation of publicly traded comparable companies in the life insurance sector. Recall that as Athene approaches it's goal of becoming a public company, its quarterly valuation should trend in line with market movements in [peer] valuations absent any other company-specific drivers. Athene's fair value increased by approximately 3% and this resulted in a $19 million unrealized gain within other income as well as a modest amount of unrealized net carried interest income.

Lastly, on the incentive business there was a discretionary incentive pool compensation accrual in the quarter of $10 million within realized profit sharing expense. With regard to our cash distribution, the $0.35 per share we declared today was driven by the relative cash flow stability of the management business and the upside it can create by leveraging the firms integrative platform as it relates to sourcing, financing and executing sizable transactions. With that, we will now turn the call back to the operator and open up the line for any of your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Michael Carrier of Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys.

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

Hey. Morning.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Hi. Maybe first one for Josh. The level of deployment you hit on some of the reasons that you guys have been able to deploy the capital. It still seems a little unusual just given where the market is and where valuations are. So just wanted to get some understanding. It seems like some of the deals are combinations of different firms in the same industry. So maybe you get more synergies and that's how you can get pretty attractive valuations. But just wanted to get some insight on where you're seeing those opportunities and the level of confidence in still generating returns. Because clearly the returns in the fund are performing well. So just wanted to get some insight on how this portfolio companies are doing relative to expectations.

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

Yes. So I would say that in Fund VIII we are seeing year-over-year appreciation in EBITDA in the low to mid single-digits. And so we are seeing those companies perform well. In terms of value creation though, at the end of the day -- and I don't disagree that the equity markets are fully priced but we are -- and the private equity market is significantly price. The average transaction TV to adjusted EBITDA trailing in the private equity markets

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was over 10, approaching 11 times EBITDA. And we are sitting here buying stuff at six times EBITDA or below. And so the reality is that we are finding this stuff and the value creation is real. That's literally the spread that we are creating our portfolio at.

In terms of how that's occurring, we're seeing -- traditionally about a quarter of our business is so-called corporate carve outs where we have bilateral negotiations with companies. And so you're in exclusive dialogs there. That's always helpful in terms of creating discounted purchase price. Certainly, as you mentioned, we're doing what we call build-ups where we put a number of companies together and you do get synergies. I will say though that when you look at generally the multiple buy down on those transactions -- maybe it's a multiple point or so plus or minus. And I am giving you a general statement. Each transaction is different. But it is certainly not the five multiple point discount that we are actually creating our portfolio at. So there is clearly something else going on.

And then the large scale of our capital allows us to do -- we are in pretty rare air in terms of the people that can put transactions together of this size. And so, again, that helps in terms of having the leverage to negotiate good purchase prices. But overall, the public markets we think are very bifurcated. If you are a growing tech company that is knocking the cover off the ball and appreciating your earnings consistently right in line with expectations, you're getting a very high multiple. But there are a lot of times the market doesn't really want to take the time to understand complicated stories or of companies that maybe missed their earnings, the market perceives to be underperforming, end up trading at very, very low multiples. And we just take a different view of value.

The best example of that is, truthfully, is ADT. ADT was a very large public company that we put a significant premium on relative to the market. But we still believed that buying that franchise at under six times was a very good deal for us and our investors and that company is performing quite well. So we literally just took a different view and we thought we were buying a great business and the market wasn't valuing it appropriately. So we are seeing for the first time in at least in my memory deal after deal after deal. And we've mentioned a bunch of these on the call of public to private. Usually when we see a public we always say well wow we are putting a premium on this public company. Let's make sure we know what were doing. But honestly as I look at the prices that the public markets are affording us, I think it is creating a lot of opportunity for us. So sorry for the long-winded answer but there was a lot there that I felt was worth going through.

Michael Carrier - *BofA Merrill Lynch - Analyst*

That's helpful. And then, Martin, you gave a little bit of color on the expenses and some of the things that drove FRE in the quarter and the outlook. Just two things on that. In the second quarter, what were those items on expenses? Or not what where they but just what was the level of that created the sequential decline? And then probably more importantly, as we think about 2017 and as some of the fees start to kick on on some of these funds, where should we be thinking about maybe the FRE margin or how much expense growth to expect as those fees kick on?

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

Sure, Mike. So just answering the first part first. There were a handful of one-off items in Q2 that none of them were individually significant. Some of them were sort of deal costs, professional fees and so on. And part of it was a slight increase to the SEC settlement. And that was sort of clearly one off.

In Q3, it's low. I would sort of look through both of them as you look forward and run rate to the historical average on [non-comp] expenses X placement fees. And then as we look forward, away from placement fees we have a pretty tight lid on non-comp expenses. So we manage that carefully. I would expect that to be sort of similar to current levels. I think the only two funds in the line-up that we would expect to take placement fee cost on are EPF III, which we spoke to. And then ultimately Fund VIII. But the timing of that and that close is -- we will figure it out. It will be potentially sometime next year. But it's hard to isolate a quarter.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

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

Sure.

Operator

Next question comes from Devin Ryan of JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Thanks. Good morning, everyone.

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

Good morning.

Devin Ryan - *JMP Securities - Analyst*

Maybe starting on MidCap -- obviously you guys have spoken highly about the opportunity there. I'm not sure if you could just give a little bit of an update around how that business is progressing, how you're feeling about that kind of trending towards that $20 billion plus opportunity over time and anything new you are doing on that front.

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

Yes, so MidCap is going quite well. We have a very strong team there. We added about $1 billion of AUM and grew that from [$5.5 billion] to [$6.5 billion] year-to-date. And I would expect it to continue to grow organically at that kind of rate, hopefully a little faster, but at that kind of rate. And then you can sort of do the math. You get to the $20 billion, we would need another deal or two like Mubadala, which Mubadala which we did last year where we added 3 or so -- $3 billion plus of assets.

And so there are those types of deals out there, certainly the traditional providers of this type of financing, this direct origination into the middle market are still fading, if you will. And we and others are continuing to grow our platform. And so there still continues to be a good part of the market for our investors where we see better risk returns because we're buying senior debt, generally, that is financing at a relatively low multiple and getting paid decent rates for it relative to the public markets. So our investors continue to have appetite as well.

Devin Ryan - *JMP Securities - Analyst*

Okay. That's helpful there. Thank you. And maybe a different topic here -- just thinking about opportunities in the retail brokerage space with just all the changes occurring right now, particularly with new regulation coming, the Department of Labor fiduciary rule -- I'm just curious whether there might be opportunities to figure out a way to get exposure to or maybe even own distribution more cheaply or whether or not you can add new products or add new self advisory relationships -- just how some of the developments there might present opportunities and if you are looking at any because of those developments?

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

Yes. Clearly, again, the backdrop is that certainly retail investors are looking for yield like everyone else. And so increasingly, the alternative space for retail investors is attractive, particularly in things like real estate or bank debt. And certainly that is -- and certainly our total return product that we spoke of which kick out kind of a 5% to 6% yield, if you will, in relatively safe stuff. I think that is the perfect example of an opportunity that in essence is a retail based opportunity. And there's also -- we've also been growing some of our permanent capital vehicles that we -- where the public companies hold the assets and then we manage the assets on behalf of the public companies.

That would be an example of whether it be -- ARI would be probably the best example of where we are growing into both retail and the traditional. But retail is a big part of it. And then increasingly we're seeing family offices in high net worth individuals in some of the programs interested in those types of alternatives. And even some of our more high alpha alternatives such as our private equity fund or our EPF. EPF is likely to have quite a significant high net worth tranche as part of its closing.

So we are definitely growing that business and today it represents 10% to 15% of our business. And we continue to make investments in terms of people that need to either cover the systems themselves in the banks or non-bank platforms on a wholesale basis. And so certainly that is something that were focused on and investing in. And some of the regulatory changes definitely create volatility and a little bit of headwind. But overall, there's still a big tailwind for our products. So it's kind of overwhelmed that little bit of a headwind that you're talking about with DOL and some of the other changes.

Devin Ryan - *JMP Securities - Analyst*

Right. And I guess just from the distribution perspective, does it make sense to think about maybe buying wholesale cheaper or actually buying the end distribution? You're buying a brokerage in some form or fashion just to kind of have more access throughout the foodchain.

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

It can. And obviously last year, we publicly announced that we were considering an investment in ARC, which we ultimately didn't conclude because there were -- for other reasons. But the bottom line is, yes. And there are other platforms like that that we continue to look at and study. So opportunistically, at the right price, if we can find that, certainly, we would rather buy it -- buy an existing platform depending on price versus build. So every -- whenever we hire and invest, we always do it buy build analysis. And by the way, there are opportunities like that. None quite the size of ours, but on a smaller basis that we are actually considering right now.

Devin Ryan - *JMP Securities - Analyst*

Got it. Very helpful and congratulations on the really nice quarter as well. Thank you.

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

Thank you.

Operator

Your next question comes from Ken Worthington from JPMorgan.

Kenneth Worthington - *JPMorgan - Analyst*

Hi. Good morning. Josh, wanted to talk a little bit about the Caesars work out and really about what it means for the value of your ownership. I think there are two public share classes that you owned, and then was any of the impact of the work out reflected in the 3Q marks or will it really be reflected in 4Q?

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

Hey, Ken, it is Martin. I will cover it. We have assigned some share. It's to confirmation, and that will take some time. We are, as you said, two classes of shares. Within our September numbers, we reflected a relinquishment of the shares in the entertainment company, so we marked them down to zero. That is included within the Fund VI marks. And then we continue to own the shares in the acquisition company launched at the public price.

Kenneth Worthington - *JPMorgan - Analyst*

Okay. Great, perfect. And I apologize if this was asked, didn't quite catch it. But in terms of the cost in credit came down quite a bit, particularly in comp, $10 million, and then other systems were down a little bit too. Why were the comp costs much lower? And again, I apologize if that was asked previously.

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

Sure. If you look at comp on a year-on-year basis, comp is up a couple percent, headcount is up a couple percent, so it's sort of in line. The tick down reflects where we are now relative to year-end compensations, both in terms of the quantum and the mix of how comp will be delivered to people. So as you look forward into Q4, I would expect comp to be at or around maybe slightly up from these levels. There's obviously moving costs, but we're not done with the process. That is the high-level piece.

Operator

Your next question comes from Robert Lee of KBW.

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

Great. Thanks. Thanks for taking my questions. I guess the first question I have is just a question on the real estate business. I mean, obviously, the last couple of quarters, it has been a little bit better contributor to results, but I guess my sense is that generally that has been maybe somewhat of a disappointment what your aspirations were several years ago. So you maybe just update us on what you're thinking about within your real estate franchise, how you're thinking about the opportunities to accelerate growth?

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

Yes. I think that there are two components to our real estate business. One is debt, and one is equity. The debt business continues to grow nicely.

What's happened is that the equity business is comprised of an organic opportunity fund that we raised that is a relatively small size for us plus some coinvest of under $1 billion there. And then the runoff of the Citibank -- way back there, we acquired -- I know it was a $4 billion or $5 billion of assets from Citigroup. So those are running off now. When you see the real estate business, you're seeing all those pieces kind of in the mix, and therefore, the overall business looks a little flatter than maybe the underlying growth in the debt business. The other thing is we are in the middle of raising an Asian real estate private equity fund, which would be our first entrance into that region from a real estate point of view, or first organic entry. The city portfolio did have some Asian real estate.

The net-net-net of it is it is growing a little faster than it would appear in the overall AUM. Having said all that, it's not really significant enough. It's too small, and in order to grow it organically, it will continue to be a relatively slow growth. Therefore, as we said in the past, we are actively looking at where there might be some acquisition opportunities in the real estate business that would make it more significant to our Company. So that's the way that I would describe it.

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

Okay. Thanks. And then maybe, Martin, if you could just kind of update us on where we are with the escrow on Funds VI and VII?

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

Sure. VI's escrow ratio dipped a bit further this quarter. It is now mid to high 70s. And so it has a decent amount of appreciation to get back into a cash carrying mode. VII, given some specific markdowns on a handful of investments including some privates, the escrow ratio also drops to about 100%. That is sort of teetering on the edge of callback, but not technically there right now.

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

If you want the specifics, page 14, the first footnote has the actual escrow amount, but right in line with what Martin said.

Operator

Your next question comes from Craig Seigenthaler from Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks. Can you provide an update on AAME? It sounds like they may be raising some fee-earning AUM pretty soon on the last call.

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

Yes. I'd say that we continue to make progress on AAME. What we have done is obviously put together, build out the investment team. And to restate a little bit of what we said on the call last time, between all of our portfolio companies and certain other financial investments, investments of financial institutions in Europe, we're managing quite a bit of assets, approximately $15 billion of assets. So each of these entities, and there were multiple entities, had their own teams.

And what we thought would make sense would be to create an overall team that had significantly more breadth and understanding of the markets, as well as understanding of our particular expertise and to increase returns in AAME and in the European entities. And that was going to benefit both the organic investors, as well as our portfolio companies. We're building out that team. It doesn't happen overnight.

We've made a number of hires and invested in that team. Relative to new investments and net income, so far it is not material to our results. So I would think about this right now as operating as a cost. Plus, we do get reimbursed for the costs, but eventually we do hope to add assets but right now that is still a work in process.

Craig Siegenthaler - *Credit Suisse - Analyst*

And just as my follow-up, as of the last quarter, I think Athene was marked at 1.2 times book. I'm just wondering if you can update us on where it was valued as of 9/30?

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

Sure. It is Martin. We marked it up from $36.40 to $37.50. That considered public comps and Company-specific factors. And the mark is still at 1.2 times book ex-AOCI.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. Thank you.

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

Sure. Thanks.

Operator

Your next question comes from Brian Bedell of Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Thanks. Good morning, guys.

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

Good morning.

Brian Bedell - *Deutsche Bank - Analyst*

Martin, can you just walk through the -- just remind us again of the fee rate dynamics between Fund VIII and Fund IX, assuming that timeline is true in terms of the fundraising for IX? At what time do you step down on a fee rate on Fund VIII and when Fund IX kicks into full gear? And then what the rates on those would be?

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

Sure. Brian, Fund VII today averages around, on a fully-funded basis, about 1.1% on committed. When Fund IX turns its fees on, it will then step down to 75 basis points on then invested. And so that won't be quite the full amount of the $18 billion, because we always fall back a little bit at the end for follow-on investments.

We won't turn Fund IX on until Fund VIII is fully invested. That is the unknown for us. We can raise the money and have it close, but not turn the fees on until they go off on VIII. But they should happen simultaneously.

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

Right. And just to give some context around it, we've invested 65% of that fund in a little over three years. So if we traditionally hold back 10% to 15%, you can do that math. And again, that's not necessarily -- historical results are not necessarily predictive of how we do in the future, but it gives you a sense of the run rate and you can do the math.

Brian Bedell - *Deutsche Bank - Analyst*

So 90%, say, 90% invested, you would consider that fully invested (multiple speakers)?

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

Right. So if you think about a year or so, that would be kind of the math. So when we said in the press release affecting 2018, that's sort of the backup to that statement.

Operator

Your next question comes from Chris Harris of Wells Fargo.

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

Thanks. So looking at your carry generating AUM, a pretty big spike up in credit. I was a little surprised at this, though, because I think in your last presentation, the appreciation required to achieve carry was like 19%. So can you help me square that? I know obviously you guys didn't generate a 19% return in credit in a quarter. Is that an average number? Is that what is going on?

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

Yes, Chris, I think the number you are quoting is for a certain number of funds that are more than two years old. The headline is, it is a very strong quarter from a carry generating perspective and within credit of the $40 billion of money that is in the ground, invested eligible for carry, we now have $32 billion, up from $26 billion and up from the mid-teens a year or so ago.

Most of that increase has come in the liquid performing parts of the credit business, and so then to your question, you say what's left? What's the other $8 billion, which is in the earnings release and we stratify it by the appreciation that's needed to get that into carry. About $2 billion of that is within 150 bps of getting into carry, and then the remainder has a large gap to get into carry. I think the number you are referencing is that last piece of it.

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

Okay. It just looked like that last piece was about $14 billion in Q2, and that's moved to $8 billion, roughly.

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

That is the sum total, and I think what Mark is saying is you need to sort of break it out into the two buckets. There's the drawdown bucket, which does need a meaningful amount of appreciation to get into carry and that right now is sitting at about $4 billion of assets. But there is this other bucket of liquid performing, and a fair bit of that is what moved into carry this quarter. You didn't need nearly as much appreciation to get there. But overall, you are right that it's 19%, but that is a blend of the drawdown and the liquid performing. So you need to split them out.

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

Got it. I see. Okay. Thank you.

Operator

Next question comes from Chris Kotowski of Oppenheimer.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Good morning. There were about $500 million of realizations in Fund VIII but we didn't see anything when we ran our Dealogic poll, so I wonder if you can give some color on that? And then secondly, is that money still recyclable or are you beyond that?

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

We're not sure where that Fund VIII realization figure is coming from. There weren't any realizations on Fund VIII during the quarter.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. I'm looking at page 27 and the realized value says $806 million and the comparable disclosure June 30 said $302 million.

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

I believe that it was this quarter, we did a dividend recapitalization of Saint-Gobain, the glass company we own in Europe and I believe that is what it is. The reason you're not seeing it on Dealogic is likely that. The other part of it is likely to be selling debt securities where we -- there's realization on the profit but we recycle the principle amount. My guess --again, we will come back to you, but is going to be a combination of those things. It will be recaps and debt securities in the marketplace that wouldn't necessarily show up on Dealogic.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Can you recycle that?

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

You can recycle -- within 18 months, if you sell something within 18 months of the initial investment, you can recycle the principle, but generally you would get a realization on the profit. It would depend on that.

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

Josh and I will dig -- we can dig in and circle back to you on that.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. Thank you.

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

Thanks.

Operator

Your next question comes from Alex Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs - Analyst*

Great. Good morning, everybody. I wanted to follow up on just the outlook for realizations broadly. You're obviously deploying very actively, but at the same time, it sounds like you continue to think the market probably pretty fairly valued. So it should be a pretty decent time to sell. So I guess taking a step back, outlook on realizations, and also more importantly, which products do you guys anticipate to be the bigger contributors to cash incentive fees as we progress over the next 12 to 18 months?

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

I would say that it is a good realization environment, and our gross returns in Fund VIII are quite good. So the reality is we are going to be looking to realize as these investments mature. Having said that, the average investment in Fund VIII which is the bulk of the private funding portfolio increasingly is only a year. And so these investments are likely to need to season a bit longer so that's the sort of balance that you have.

In Funds VI and VII and predecessor funds, there are a series of investments that are more mature that are on the table from a realization point of view. So that's kind of where we are, which I think means that realizations. And then credit is, we do think that this is a very good -- we are generating cash incentive out of credit. It's smaller than the large private equity fund. I think what all that means is that while it is a good realization environment, our realizations are likely to come over time. Because most of our portfolio on the credit side will be kind of on a more consistent basis and you can look at the latest quarter or two and sort of go from there. But in T, we're going to need a little more seasoning for the most part.

Alexander Blostein - *Goldman Sachs - Analyst*

Got it, and then just a quick follow-up around Fund IX, I heard you guys on management fee and rates there, but any change of structure with respect to transaction fees, monitoring fees, and things like that? I want to make sure we didn't miss that.

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

We're still working on -- we haven't really disclosed what we're going to do on terms and we're still working through that. But I wouldn't expect it to be a negative.

Alexander Blostein - *Goldman Sachs - Analyst*

Got it. Great. Thanks so much.

Operator

Your next question comes from Glenn Schorr of Evercore ISI.

Kaimon Chung - *Evercore ISI - Analyst*

Hi. This is Kaimon Chung in for Glenn Schorr. You mentioned last year's ARC deal, and I think I heard you say you were currently looking at some similar deals now. Can you just expand upon that? Are you looking at stuff similar to that with the same appetite for those complexities? And just wanted to get your updated views on the non-traded REIT space. It feels crowded, though one of your biggest peers entered that space recently.

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

Yes. We can't really talk about specific unannounced deals. Having said that, I'll give you broad -- I'll tell you, that was a wildly complex deal. Wildly. It would be very atypical to be looking at something that complicated, so rest easy. And then on the nontraded REIT space, we're always looking at lots of different things, and I can't really, we can't really orient in a public way around specific things we're looking at, unfortunately, for obvious reasons.

Kaimon Chung - *Evercore ISI - Analyst*

Okay and just one quick follow-up, if I may. So in energy investing you have been cautious to deploy capital, given the dry powder out there, it seems like some of your competitors are increasingly more active there. Can you just give me an update on views on where you see potential opportunity and where you are avoiding?

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

In terms of private equity?

Kaimon Chung - *Evercore ISI - Analyst*

Equity investing, yes. Equity and the debt side too.

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

I spent a lot of time early in the call going through how we are sourcing at very low multiples relative -- the private equity business in general is very fully valued. It's actually the highest -- I said that the multiples are approaching 11 times. That's the highest ever. And leverage actually, interestingly, even though is available, given the pull back of the banks, it's falling. It's fallen from the high 5s into the low 5s as a multiple EBITDA. So you can do the math.

Higher price, maturing cycle, lower leverage yields lower return. But for us, we're performing quite well against that. In terms of energy deployment, I'd say that there are opportunities. The pressure in oil prices has created an opportunity in energy. Certainly, that's what drove our second natural resource fund. We expect a lot of that to be North American energy and so we are deploying that nicely.

So we do see that as being a very interesting sector, because we think that the fundamentals for higher prices in the energy markets are going to be there over the timeframe that we invest. And we can hedge and we're seeing value-based investment opportunities flow our way because there's a lot of people that just need to sell because they are leveraged and dealing with the drop in energy prices that occurred over the last few years.

Operator

Your next question comes from Michael Cyprys from Morgan Stanley.

Mike Cyprys - *Morgan Stanley - Analyst*

Hey, good morning. Thanks for taking the question. Just curious on Fund VIII. You mentioned you had some monetization events in the fund this quarter but didn't' seem like you took any cash carry, per se, on that. So just curious what your approaches for taking cash carry out of Fund VIII?

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

We need to be above 115% on escrow to take out any cash carry. We are now at 115% using the September 30 marks but getting cash out is dependent on holding that, and taking into account what you're selling. So if you sell a higher (inaudible) deal, that hurts the ratio. So it will come. It's probably going to take a bit more time, though.

Mike Cyprys - *Morgan Stanley - Analyst*

Okay, and then just a follow-up on energy. Fund VIII, do we know how much is energy in that fund?

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

Yes. It is between 15% and 20%.

Mike Cyprys - *Morgan Stanley - Analyst*

Got it. Okay (multiple speakers).

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

If you include all, like natural gas and oil and everything.

Mike Cyprys - *Morgan Stanley - Analyst*

Got it. Okay. And just one last one on the tax rate, how we should thinking about that for fourth quarter into next year? It seemed it was a little bit higher this quarter.

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

Sure. So the tax rate for the quarter it is sort of in the range of what we talk about, the E&I tax rate. It was up a bit this quarter, given the mix of income coming out of the incentive business. And that itself was driven by energy, which can tend to be taxable income and credit. Credits carry was up, as you saw from the numbers.

Within that, the portion of taxable credit income was also up. It is sort of the mix issue within the incentive business between taxable and nontaxable, and that increased the rate by a bit. It's hard to predict where it's going to be going forward. We have pretty good clarity on the management company. The incentive company is based on marks and the mix of those marks between taxable and nontaxable. The only way to predict that is over a much longer time horizon.

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

Before we conclude the call, I just want to clarify back to Chris Kotowski's question earlier about the $500 million change in realizations during the quarter. That was primarily from Verallia, as Josh said. We also had a little bit from Ventia, which is the former latent corporate carve out in Australia, and a little bit from debt securities.

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

The recaps in Ventia and Verallia, and then selling debt securities, as discussed.

Operator

Thank you. That concludes the Q&A portion of today's call. I will now return the floor to Gary Stein for closing remarks.

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

Great. Thanks very much, operator and thanks everyone for joining us this morning. As I said earlier, if you have any questions, please feel free to circle back to me or Noah Gunn. And we'll look forward to talking to you again next quarter.

Operator

Thank you for your participation in today's conference. This does conclude today's call. You may now disconnect.
