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PRESENTATION

Operator

Good morning, and welcome to Apollo Global Management's Third Quarter 2018 Earnings Conference Call. (Operator Instructions) This conference call is being recorded.

This call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements. Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the company's website. Also note that nothing on this call constitutes an offer to sell or solicitation of an offer to purchase an interest in any Apollo fund.

I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein - *Apollo Global Management, LLC - MD, Head of Corporate Communications, Client and Product Solutions*

Great. Thanks, operator. Good morning, everyone. Joining me this morning are Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, our Chief Financial Officer. We're also joined by Jim Zelter, Scott Kleinman, our copresidents; and Gary Parr, Senior Managing Director. Jim, Scott and Gary will be available for the Q&A portion of the call.

Earlier this morning, we reported distributable earnings of $0.55 per share, which led to a cash distribution of $0.46 per share for the third quarter. The quarter's distributable earnings were primarily driven by fee-related earnings, or FRE of $0.48 per share.

Lastly, we reported economic net income of $0.83 per share for the third quarter of 2018.

With that, I'll turn the call over to Josh Harris.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Thanks, Gary, and thanks, everyone, for joining us. During my prepared remarks this morning, I'd like to share my thoughts on a few key drivers that continue to propel Apollo's business forward, including the ongoing growth of our fee-related earnings, the pace of our managed funds' capital deployment and the solid pipeline for continued asset growth. I'll then turn the call over to Martin so he can provide you with some comments regarding our third quarter investor performance and financial results before we take your questions.

I'd like to begin my remarks by touching on Apollo's growing earnings power, particularly as it relates to our fee-related earnings, or FRE. As we've said before, we believe FRE is a critical financial metric since it is a foundational component of our quarterly and annual cash distribution that is largely based on recurring management fees. I'm pleased to note that our fee-related earnings have continued to increase, reaching $0.48 per share this quarter, which is up 20% versus the year-ago quarter. It's important to recognize that our company's FRE is extremely stable and predictable since it is primarily generated by long-dated fund and permanent capital vehicles, which we manage. In addition, we expect that our FRE will continue to trend higher over time as we grow the fee-generating assets under management across the Apollo platform.

Revenues from management fees have comprised approximately 90% of our total fee revenues historically and had been growing at a compound annual rate of approximately 13% over the past 5 years. This growth in management fees has been augmented by the ongoing focus on efficiency, cost discipline and operating leverage, which has driven margin expansion and led to 19% compounded annual growth in core fee-related earnings over the same time frame. Going forward, we will continue to focus on driving our FRE higher since it is a reliable source of cash quarter in and quarter out, regardless of whether we have any significant realizations from funds we manage.

Moving on to capital deployment. I'd like to focus my comments on our private equity business. As you may have noticed in our earnings presentation, deployment of private equity capital was somewhat light in the third quarter. However, as we've noted in the past, deployment does not occur at a steady pace and can be lumpy from quarter-to-quarter. Based on standing commitments from pending transactions, which included $4.3 billion of new commitments in the third quarter, we remain confident that we will maintain our average annual deployment pace of $4 billion to $5 billion of private equity capital. The 2 largest pending private equity deals are the take-private transactions -- transaction of LifePoint Health, which is being acquired by a funding portfolio company and is expected to benefit from meaningful synergies. And the take private of Aspen Insurance, which leverages our deep expertise in financial services and insurance. Both of these deals require a sizable equity commitment, and we expect to raise equity co-investments for these transactions.

We're often asked how we're able to -- how we are able to identify attractive investment opportunities in a private equity market where valuations are elevated. A significant amount of dry powder is available across the industry and relatively cheap financing is readily accessible. While we continue to evaluate traditional buyouts and corporate carveouts, it's interesting to note that in addition to the pending LifePoint asset deal, funds managed by Apollo have already completed 8 take-private transactions in the U.S. over the last 3 years in a range of industries where we have deep expertise. In aggregate, private equity funds we manage have invested more than $10 billion of equity capital to fund these take-private deals at what we believe were attractive prices. We continue to work through an active pipeline of potential investment opportunities that meet our value-oriented criteria, and our pipeline includes a number of other potential take-private deals. Although there's a general perception that public market valuations are relatively full, we see a bifurcation among publicly traded stocks with growth-oriented industry leaders on one hand and companies that have fallen out of favor on the other hand. To this point, one statistic we like to highlight is the average fee multiple for S&P 500 is 16.4x earnings. But if you simply back out these bank stocks, the multiple actually drops nearly 2 multiple points to 14.5x. There's thousands of publicly traded companies in the U.S. and Europe, and by concentrating on our industries we know well, we believe we were able to identify fundamentally good companies trading at attractive prices, which can provide opportunities to create value over time.

Turning now to asset growth. At the end of the third quarter, we had total assets under management of $270 billion, which is an increase of 12% or $29 billion over the last year. Over the last 12 months, we've generated inflows of $46 billion, and we have a robust pipeline of fund-raising activity that's taking place through our traditional fundraising efforts, as well as our strategic capital initiatives.

Starting with our traditional fundraising activity, we have several important initiatives in the market today that I'd like to highlight. In private equity, following a $2.2 billion first close of our Hybrid Value strategy, during the second quarter, we continue to benefit from strong investor receptivity to this new product offering, and we are targeting $3 billion in total commitments by sometime around year-end. As a reminder, Hybrid Value more formally integrates the expertise of our private equity and illiquid credit investment teams by focusing on capital solutions, structured equity and noncontrolled stressed and distressed investments. The strategy speaks net return in the low to mid-teens with downside protection, which we believe provides a highly differentiated solution to our investors' portfolios.

During the third quarter, Hybrid Value completed its first 2 deals and has continued to work through a strong pipeline of investment opportunities.

Next, our current flagship, Natural Resources Fund, ANRP II, has been creating significant value for investors, with growth in net returns since inception of 37% and 21%, respectively. This $3.5 billion fund is now more than 80% committed or invested, so we are actively fundraising for a successor fund and anticipate a first close to occur around year-end.

In credit, our financial credit investments, or FCI fund franchise, is continuing to perform well, and we recently began fundraising for our fourth visit of this differentiated insurance strategy. We expect a first close for FCI for some time around year-end. We've also had a very positive reception for the fourth fund in our structured credit recovery strategy, which we refer to as SCRF IV. To date, we've closed on $2.2 billion, and we expect to have a final closing with a target of $2.5 billion during the fourth quarter. In total, we expect that SCRF IV will be twice as large as its predecessor fund.

Turning to our real asset businesses. A few weeks ago, we announced that funds managed by Apollo entered into a transaction to acquire an approximately $1 billion portfolio of equity investments in energy assets from GE Capital's energy and financial services unit. The equity portfolio comprises approximately 20 investments in Renewable Energy, contracted natural gas, fire generation and midstream energy infrastructure asset. In connection with this transaction, we will also look to form an ongoing relationship with GE capital with respect to new energy infrastructure investments. We are excited by this unique opportunity to extend our existing infrastructure capabilities and launch a new equity investment platform. The foundation of this platform will have what we believe is an attractive portfolio of cash generating assets from its inception, and we believe this strategy enables us to leverage our deep expertise and energy in infrastructure and a differentiated manner. This platform is also highly complementary to our existing infrastructure credit strategy, where we currently manage a portfolio of debt investments totaling approximately $1.5 billion.

Lastly, we continue to see heightened interests for bespoke, long-dated managed accounts across our credit business as well as the broader Apollo platform. These dialogues with some of the world's largest institutional investors are occurring with the mix of new clients, as well as with current investors that are seeking to expand their existing managed accounts. We are now managing a total of approximately $23 billion across these strategic accounts. Earlier this month, we established a significant new strategic managed account, focusing our performing credit, which is expected to launch in the fourth quarter and then continue to ramp up throughout 2019, ultimately reaching several billion dollars in aggregate.

I'd now like to spend a few minutes discussing the growth opportunities across our insurance platform. Our spectrum of insurance capabilities continues to expand and complement our existing U.S. and European spread businesses, with further capabilities such as Venerable, which is focused on variable annuities; FCI, which is focused on the longevity space; and Catalina, which is focused on the nonlife insurance runoff space. The theme, which is the largest permanent-capital vehicle we provide investment management services to, now has approximately $100 billion of assets, and they continue to grow through a variety of well-established organic channels. In addition, during their first Investor Day, which they hosted last month, the team outlined a path to significantly scale its balance sheet over time through a combination of organic and strategic pathways. Through the strength of our strategic relationship with the team where we serve as the manager for their assets, we have helped them to deliver consistent investment outperformance within the life insurance industry.

We're also pleased that in connection with the team's Investor Day, we jointly announced several key revisions to our investment management agreements with Athene. These revised arrangements, which remain subject to approval by Athene shareholders, provide for an extended contract term of 4 years, with automatic renewals for each successive 2-year period thereafter, and also provides for certain amendments to reflect the team's current scale and a proposed growth to maintain a strong alignment of interest.

Turning to Europe. As we have discussed previously, we're assisting Athene in replicating its success by establishing Athora as a capital solutions provider for the European life insurance market. Athora is pursuing accretive acquisitions to grow their business, which similar to Athene, has the added benefit of growing Apollo's business. Since we are their strategic asset management partner, Athora's balance sheet will be approximately $15 billion following the pending Generali Belgium transaction, which will expand their European footprint. Both of those transactions are expected to close around year-end, subject to regulatory approvals.

Another platform I'd like to touch on is Catalina, which is a leader in the consolidation of the nonlife insurance runoff industry. Apollo and funds we manage have been working with Catalina since 2013, and during that time, the company has completed 16 acquisitions and grown to $4 billion of assets. I'm pleased to note that just a few weeks ago, we completed a transaction in which funds managed by Apollo acquired a majority stake in the company and also committed $700 million of dry powder to fund growth through new acquisitions. We look forward to building upon our strong relationship with Catalina and leveraging Apollo's deep insurance expertise to continue to help the company drive its significant, anticipated growth. It is also important to note that this strategic relationship with Apollo adds another key component to our broad suite of insurance capability.

In addition to the existing platforms I just discussed, we continue to evaluate a number of interesting opportunities across the insurance industry. While it is impossible to predict whether any of these opportunities will materialize into an actual transaction, they each represent significant potential growth areas for the Apollo platform. Moreover, with more than 150 professionals across Apollo focused on the insurance and broader financial services landscape, we believe that we have a unique capability to originate, evaluate and complete highly complex insurance-related transactions.

And now I'd like to turn the call over to Martin. Thank you.

Martin Bernard Kelly - *Apollo Global Management, LLC - CFO & Senior Partner*

Thanks, Josh, and good morning again, everyone. Starting with distributable earnings, the $226 million or $0.55 per share we generated during the third quarter was driven by strong growth and stability of our fee-related earnings, as Josh highlighted. Fee-related earnings of $197 million or $0.48 per share were complemented by realized performance fees and realized investment income, principally generated by monetization activity in Fund VIII.

In addition to our strong and growing FRE, our economic net income for the third quarter was bolstered by appreciation of Athene stock price as well as positive net performance fees, which was partially offset by elevated profit share expense. The net result of these items drove economic net income of $334 million or $0.83 per share post-tax.

As it relates to the quarterly mark on Athene, the fair value increased by 18% quarter-over-quarter due to the higher trading levels of its stock and by a modest reduction in a liquidity discount on shares held on our balance sheet. The net impact of the increasing value on our economic earnings was an unrealized gain of $0.39 per share for the quarter, which flowed through both credit and private equity given the nature of how we acquired the shares we hold. Although the mark-to-market value can fluctuate meaningfully from one quarter to the next, we believe strategic investments like our 10% economic stake in Athene serves to strengthen our balance sheet and further align ourselves with a key strategic partner.

I also want to note that while they had been some negative press reports regarding Athene and Apollo, we believe those reports are inaccurate and misleading.

Next, I'd like to provide some context behind the quarter's net performance fee generation. Total performance fees for the quarter were $127 million or $49 net of profit share. Notably, each of our business segments delivered positive returns in the third quarter.

In credit, on an aggregate basis, the funds we manage generated a blended gross return of 1.7% during the quarter and approximately 6.6% over 12 months ended September 30. As a reminder, the credit performance statistics we provide are gross returns that aggregate the performance of all of the credit funds we manage across a range of risk return profiles, excluding Athene's non-supervised assets.

We are pleased to note that as of the end of September, this is the 11th consecutive quarter and 31st consecutive month that our credit business has delivered a positive blended gross return. In an environment where low interest rates and negative nominal rates continue to persist around the world, we believe Apollo's credit platform is delivering a compelling and differentiated value proposition to its clients through a diverse product set that spans the risk-and-return spectrum.

In private equity, the portfolio appreciated by 2.3% in the quarter and 10% over the 12 months ended September 30. The third quarter mark was driven by 8.5% appreciation in publicly traded holdings and essentially flat performance in private holdings.

Fund VIII, which currently represents approximately 75% of the remaining fair value of all the traditional PE funds we manage, appreciated by 3% in the third quarter and 13% over the last 12 months. As of 9:30, Fund VIII had a gross and net IRR of 23% and 16%, respectively. As we sell off the remaining legacy holdings in the older PE funds we manage, Fund VIII will represent an increasingly larger proportion of its total value in our private equity business.

Overall, the portfolio, which continues to season, is performing well and the team is optimistic about its long-term value proposition.

In real assets, our investment performance, as measured by the U.S. real estate equity business, was up 4.6% during the quarter, and this segment continues to perform well.

Next, as it relates to the elevated profit share expense, the above-average ratio of 69% during the quarter was principally due to 2 factors. First, higher equity-based profit share arising from certain performance-based grants, which will continue to amortize at similar levels for the remainder of the year before stepping down in 2019 and again, in 2020. And second, a higher incentive for accrual, which can vary quarter-to-quarter as we have progress through a calendar year.

I also like to note that we currently expect to generate an elevated level of transaction fees in the fourth quarter if the GE Capital and LifePoint transactions that Josh described earlier are completed before year-end, combined with the recently completed Catalina deal.

Turning briefly to asset flows. During the quarter, we had total inflows of nearly $6 billion, which were partially offset by outflows following the sale of the portfolio of company in our European FIG platform and the redemption of a credit managed account by a client who made a strategic decision to manage the portfolio in-house.

Lastly, as a testament to the growing financial strength of the Apollo platform, we're proud to note that just last week, Fitch upgraded our credit rating to an A. So now we have an A rating from both Fitch and S&P. Fitch cited several reasons for their upgrade, including the scalability of our platform, the significant and growing amount of permanent capital we have under management and our strong competitive position.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alex Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

So maybe to start with just the outlook on fee-related earnings. You guys continue to highlight that. That, obviously, is a very important measure. A couple of things I was hoping to hit on, a, can you talk a little bit about the new infrastructure business and kind of the opportunity that you see for that business to evolve with the GE acquisition? And two, now that you've seen a big step-up in management fee from Fund IX, what's the management fee growth that you guys anticipate over the next several years as some of these newer initiatives come in to play?

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes, I mean, we've obviously been growing management fees at low double digit and then we have significant operating leverage in the platform, so then our earnings grow at mid- to high-teens. And certainly, we've added a lot of things to our management fee in last year, which we're going to annualize next year. Certainly, not all -- Fund IX will annualize next year. The Voya transaction will annualize next year and then there's a series of other things that are coming. And so we expect to be able to continue, plus or minus, on the trajectory. In terms of the GE acquisition, I'll let Scott Kleinman comment on that because he led it.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Sure. So as Josh mentioned in his comments, we did make our acquisition of about $1 billion pool of assets in the infra equity business, which really complements a bunch of the energy and infra investments we were making in some related funds. So to your question about where we go from here, I think this creates a really attractive base when combined with the infra debt business we've been managing for a couple of years now. And our goal would be to see this grow over the next few years. So this is an area we think there's a lot of opportunity. Apollo brings I think a very attractive skill set to that space, so we're pretty excited about it.

Operator

Our next question comes from the line of Robert Lee of KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst*

I guess my first question would be really given that your outlook for fundraising, I guess, pretty positive and -- but we've seen, particularly in insurance as you highlighted, but so many -- feels like it's become the -- all your competitors seem to be entering the business or trying to get into it and obviously, been doing it longer and are larger. But what is this doing -- what do you think it's doing in the opportunity set in some places, whether with Athene, in other annuity assets? I mean, are you -- how are you kind of tactically shifting to respond to growing competition, or at least what it seems like?

Gary M. Stein - *Apollo Global Management, LLC - MD, Head of Corporate Communications, Client and Product Solutions*

This is Gary. I would like to make a few comments. First is it's a very broad industry, very large industry. As we've talked about, for example, in Europe, there's roughly a $3 trillion opportunity. The U.S. is still a similarly very large marketplace. Interestingly, the first thing we've done strategically positioning is that we, through our various affiliation, have more capability than anybody else really, having the fixed annuities, spread capability of Athene. We have the capability in Europe. We have property casualty run offs expertise. And so by having that, we try to approach ideas with companies to provide solutions. We like to find complex situations where we can help someone solve their problems and we have an array of expertise. So that's our comparative advantage. We can also actually look at transactions that are larger than what most can look at. We have -- because we have the various pockets of capital. As to the field of opportunity in the marketplace, there aren't a lot of strategic buyers, and so that actually creates opportunity for us as well. So it's not just -- whenever we're looking at the insurance industry, it's not limited just to financial sponsors or alternative asset managers and what they might do. One has to look at strategics, and there are a limited number of strategics that are active. Indeed many of the strategic companies are repositioning and selling businesses. So that's what's creating the opportunities for us.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

My only voiceover is, obviously, you have to continue to innovate. We have 150 people focused on insurance and financial services. And certainly, people have seen the success of some of the stuff and they're copying parts of it. But like when you look across the spectrum of what we can you do, it's much broader. And we're looking at new areas all the time to add and augment that other people just can't follow. So I think that we're going to stay ahead of the pack here based on the expertise -- the growing expertise we have, but certainly you can't stand still.

Operator

Our next question comes from the line of Michael Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Maybe just a question for Josh. Just on the performance. You guys gave some color on the -- in the P portfolio with the privates flattish. Just wanted to get your take on how you're seeing the portfolio. And probably more importantly, just when we think about going forward, how that should build the net accrued and then the realizations over time? And I understand like last year was a great year for the portfolio, but just wanted to get some sense on the outlook in terms of what you're seeing.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes, look. I mean, I'd say that the portfolio is heading in a very positive direction. Certainly, as I mentioned in my remarks, 75% of the overall private equity portfolio is Fund VIII, and the balance is stuff that were, sort of, remaining portfolio investments that we're liquidating from everything else. Fund IX, obviously has 1 investment in it -- 1 committed investment in it. So I would say that Fund VIII returns are about 23% gross. And I think that speaks to this -- so you will see some quarterly volatility on marks, but bottom line is heading in a very positive direction. EBITDA for the portfolio and revenues for the portfolio were up around 5% each. And so the portfolio is maturing very, very nicely, and we would expect it to continue to head in a positive direction and be consistent with our past performance, which is top of the industry clearly. Relative to kind of realizations. It's hard to imagine, this is a very low year for us, and we're in a life cycle where Fund VIII is literally a 2 -- the average investment in Fund VIII is about -- just a little over 2 years. So we would expect that fund to mature, and we would expect our realizations to go up significantly over the next few years. Having said that, obviously, it's market dependent. And when you see volatility -- we've been expecting some volatility. We're certainly seeing a little bit of that now. And we -- it's not -- if the environment doesn't -- isn't conducive to realizations, then we'll be more buyers than sellers. And so predicting on a quarterly basis is relatively complicated, but we still feel very, very positive about everything that's going on.

Operator

Our next question comes from the line of Bill Katz from Citi.

William R. Katz - *Citigroup Inc, Research Division - MD*

So a little bit of a nested question. You sort of highlight stability and visibility of your FRE, the management revenues underneath that, the permanent capital vehicles and saw the nice growth that you sort of laid out both FRE as well as new money coming in across a broadening global platform. So looking at the relative spread of your stock price versus KKR or even areas that have sort of shifted to C-Corp, what's your latest thinking on that at this point in time? And what are some of the milestones that you might be thinking about that would further reflect on your decision-making?

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. So clearly, we're obviously incredibly focused on our stock price as the 3 of us own a huge amount of shares and the employees own a huge amount of shares. And we know that, certainly, we do think there has been some positive uplift in the stock certainly of KKR over since it's started talking about its C-Corp. Having said that -- and so we're looking very hard at it and very focused on it. There's no real milestone to really -- unfortunately, that sort uplift is going to have to stand the test of time of it, because as we've said before, you're destroying cash flow permanently, right? When you -- unless the tax law change, you look at the current tax regime, this is really beneficial to shareholders. And so you want to be studied and thoughtful about it. And so we don't really have a milestone. By the way, the stock price is changed daily. I mean, we're all sitting around yesterday and staring at KKR's performance since they converted, and it's not dissimilar to ours, but depends on which time period you pick. And so I don't think there's enough information yet in the marketplace. I think certainly as people season and as indexes come into play, and all of the things that you all are -- that we're all focused on, we are going to see how all that goes, and it make a decision. If we think we can create value long run for our shareholders, we're going to do it. And so that's really as much as I can say at this point.

Operator

Our next question comes from the line of Ken Worthington with JPMorgan.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Just on real assets. So that business continues to show very good growth, albeit off a small base. I was hoping you could further flush out, maybe the successes you're having there. I'm going to try to wrap it this into this question as well. I assume the future relationship leadership with the GE falls under real assets. If that's the case, can you explain, again, what you're doing with GE going forward? Because I didn't quite get how the go-forward relationship is going to work.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Sure. Our real assets platform consists of a variety of real estate, equity businesses and real estate debt businesses really globally. You are correct. As we build out our new infrastructure platform, that also will fall under that segment. So yes. No, I think you're right. Those businesses have been performing quite well. And in fact, we would expect some additional fundraising next year as a few of those businesses are coming to the end of their dry powder. So activity has been pretty strong in those businesses, but as you pointed out, off a smaller base relative to our other businesses. With respect to the ongoing relationship with GE, that will be a -- think of it as a sourcing-and-flow arrangement as GE continues -- the business originally arose from GE's power equipment sales business and many of their clients looking for a variety of funding arrangements. And so there will be an ongoing relationship. While that won't be the only source of flow obviously from the business, that will be a strategic leadership that gives us a first look at many of those opportunities.

Operator

Your next question comes from the line of Michael Cyprys of Morgan Stanley.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

I just wanted to follow up a little bit on the infrastructure renewable asset portfolio from GE. If you can just talk a little bit about the economics? How the funds are going to be structured? What are you targeting in terms of returns, investment horizon? And how it differs from the existing ANRP funds? And any additional headcount when you bring on to platform? Sorry, just a bit under the weather.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Sure, Michael. This is Scott again. The businesses that are in that portfolio and what would be the crux or the focus of the new fund would be more in the core plus or value-added segment of the infrastructure space. So think 10% to 13% type IRRs for those style of investments. That differs from our natural resource -- existing natural resource fund making energy investments, but in the 20% plus rates of return. Obviously, our infra debt business would be in the 6% to 10% type rates of return. So hopefully that sort of covers the spectrum. And as you can see, this is a welcome addition to the middle portion of that return spectrum that Apollo was looking to really build up and fill out its product offering profile.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Most of what our NRP does is upstream and natural resource based, and obviously, we hedge it, but there's some amount of commodity risk. As you move to infrastructure, it's generally midstream or downstream. And so the price fluctuations and the volatility are much lower, and therefore, the returns are much more predictable and there almost different businesses.

Operator

Our next question comes from the line of Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Can you update us on your progress to form? I think it's around 10 credit portfolio companies like MidCap, like the GE business. And really, the purpose of these 10 business is really to help fund your insurance operation.

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Sure, this is Jim. Certainly that's -- as we've laid out in the past, that's currently our long-term goal is to have a variety of these origination platforms, whether it's MidCap, whether it's our aircraft, whether it's in other types of U.S. mortgages, Amerihome. So certainly, we are on the constant front to bring those teams in. We've made some nice progress in continuing to establish our existing platforms this year. Certainly, when we first looked at the infrastructure opportunity, we looked at it from a debt side. As Scott mentioned, we found the opportunity with GE on the infrastructure equity side. So there's nothing new to report in terms of a new platform that we've seated this year, but the consistent growth and experience that we've had in our other platforms is still a key attribute of our long-term objectives, and we're constantly on the hunt, but good steady progress in the vehicles in the platforms we have to date.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. One thing to just make sure there's no confusion on. So we've gone from 0 to $126 billion of this stuff over the last 8 or 9 years and it's a growing part -- it will grow faster, we think, than -- it'll becoming an increasing percentage of our company, but I'm not sure where the 10 permanent capital vehicles came from. I think we're always looking for opportunities and certainly going to continue to do this. But the 10 thing, I just wanted to clear up.

Operator

Our next question comes from the line of Devin Ryan of JMP Securities.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. First question, just for Josh and following up on your comments on the public market valuation ex of FANGs, which was interesting. It sounds interesting sounds like you're seeing some attractive opportunities, which is I'm assuming while it's highlighted and obviously recently entered OneMain. So I guess first, does that tell us anything about the competitive dynamics in the private markets on a relative basis? And then in the public markets, what characteristics are you looking for? How does that differ than how you're evaluating private investments? I'm sure there are some additional considerations. And then are there sectors that you feel like really stand out as being really dislocated?

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes. So I think first I'll just take the -- there's a lot of questions there, but I'd say the fundamentals we're looking for are similar. We want to buy good companies at low prices, good franchises that have a reason to exist, that have reason to flourish. And so what we do is we literally just look for the best possible pathway to be able to do that. And in certain cases, it's to distress for control market. That hasn't really been a great market. And what we're finding -- and certainly, in many cases, it is the private markets. And to add on to what you said, yes, we are seeing -- the private markets are generally driven by leverage -- the availability of leverage finance of bank and high-yield capital and the dry powder. And we're seeing those markets a bit more competitive. The public markets general driven by a lot of other factors. Certainly, there are the haves and the have-nots in the public markets today. If you're a category, if you're an industry leader and you're in an industry, particularly growth or technology industry, you trade at a very high multiple. And there's a lot of companies that have been left behind and a lot of industries that are left behind. I mean, I would argue that the alternatives have been unfairly left behind to give us a gratuitous, but I think authentic, plug as to our particular industry and our company. But there's a lot of examples of it, and if you have a complicated story you're not really welcomed so much in the public market. So that is creating a very fertile hunting ground for private equity and we do see more opportunities there and certainly, the 10-plus billion of capital we put out recently into the public markets continues to -- will continue to grow.

Operator

Our next question comes from the line of Glenn Schorr of Evercore ISI.

Glenn Paul Schorr - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Research Analyst*

Curious, the Asian markets have come in a lot more than, say, the U.S. Curious if it either accelerates your enthusiasm as individual investments? Or for may be taking Apollo there in a more significant way?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

This is Jim. I would say that we've obviously been watching some of the volatility was going on in some of Asian markets, mostly in the equity market, which as you know, we really -- unless it's private equity don't really play day-to-day in the equity market. Certainly, I think we have long-term objectives in Asia, which we've talked about in the past whether it's taking advantage of our skill set in value private equity, which Scott can talk about. But I think overall, we're noticing what's going on in recent volatility in the equity markets, but our long-term plan and our long-term investment discipline is really not going to change in terms of a value player. And Scott can talk a little bit about our expansion and our thoughts about the Asian pursuit as well.

Scott M. Kleinman - *Apollo Global Management, LLC - Co-President & Lead Partner of Private Equity*

Yes. Look, we've talked about on these calls before, but we are pretty rifle shot when it comes to entering new markets. And so we've been in India, for example, for some time. The volatility there is interesting. It's creating perhaps even an acceleration of opportunities. And we continue to invest, both in companies and in the team on the ground in India. We've also made comments about our desire to start to plant the flag and grow in Japan, and so you'll be seeing some of that. Again, cautiously and nothing heroic in the beginning, but those are really where we're spending time now from an equity stand -- private equity standpoint. Everything else is we're just cautiously watching.

Glenn Paul Schorr - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Research Analyst*

I appreciate that. Just one quick follow-up on the private equity performance. I hear you loud and clear on Fund VIII, where it's tracking, and it's the biggest piece of what's left. How are we supposed to look at that, the trailing 12 performance, that 10% way, it's like half of what we're used to for the last 30 years for Apollo? Is that just episodic and it's a stub so it means less?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

Yes, I think that's right. It -- after a pretty big couple of years, the years prior, I think -- remember that the portfolio is made up of 40 to 50 individual investments. And as you see, some move faster, some move a little slower. I think that's really all you can read from it. To sort of echo Josh's comments from earlier, we still feel really good about this fall portfolio and its ability to deliver returns consistent with our historic averages.

Operator

Our next question comes from the line of Patrick Davitt of Autonomous Research.

Patrick Davitt - *Autonomous Research LLP - Partner, United States Asset Managers*

How do we reconcile the flat private PE mark with your comment that EBITDA growth is in 5% range and markets were up 5% to 7% in 3Q? And similarly, why did the credit performance fee trend appear to diverge so significantly from your mark. Do both of those suggest some idiosyncratic markdowns? Or is there something else going on there?

Martin Bernard Kelly - *Apollo Global Management, LLC - CFO & Senior Partner*

Yes, so in PE, it's -- we look at the comps. And so for the comps that we look at based of the companies that we own, in the quarter, there were some headwinds on comp multiple compressions. So that's sort of was an offset, so an underlying improvement in performance. And then in credit, our year-to-date carrying credit is pretty much the same as it was last year, 9 months on 9 months. And so in this quarter we had 2 positions in Europe that we took some losses on. And so they're idiosyncratic. They're not a read across for the rest of the book, but that created the blended 1% uptick in the drawdown funds that you can see in the tables. And that's less than what you need to sort of keep up with abbrev. So that's what sort of when you blend it all together was the reason for the lighter credit carry in Q3 relative to prior quarters.

Operator

Your next question comes from the line of Chris Harris of Wells Fargo.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

If the equity market stabilizes from here and the environment for exits is good, do you guys think you could simultaneously be a net seller while growing FRE by the double-digit percent you referenced?

THOMSON REUTERS

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes, we do. I mean, all of these are idiosyncratic. I mean, at the end of the day, right, your job as an investor in private equity is to buy well, create value and then sell. None of this stuff, it's all meant to be a 5- to 7-year underwritten deal. And so there's clearly going to be lots of situations where we don't think the particular market backdrop is fantastic, but we've created a lot of value in a company. We've achieved our objectives, and we sell it. And at the same time, the 14.5 multiple that we talked about relative to the S&P, excluding the tech stocks, the FANGs, that's going to create a buying opportunity across the public markets. And so they're not linked. I mean, on a broad basis, certainly, obviously, if there's a better sellers' market we'll sell maybe a little bit more. But by and large, we've a job to do over 5 years, 7 years, 3 years. And not only that, each industry is very unique. There'll be a bunch of industries that might be trading well and some others aren't and so we invest across many, many industries and so you can't really generalize. So anyway, yes, I do think that you could have both of those things occurring.

Operator

Our next question comes from the line of Brent Thill of UBS.

Brent John Thill - *UBS Investment Bank, Research Division - MD and Senior Analyst*

My question is on the revised fee structure with Athene. So as you look at organic and inorganic growth at Athene over the next few years, how are you thinking about allocation across the difference of allocation fee buckets? And what that mean for -- what that might mean for the overall fees you get paid? And then within those higher fee asset classes, is there any clawback arrangement tied to the fees?

James Charles Zelter - *Apollo Global Management, LLC - Co-President, Managing Partner & CIO of Credit*

So as Athene has said in their Investor Day and pretty clearly in their disclosure, when we restructured and amended the construct, we really did it in a manner which align our objectives and their objectives of net investment returns in the portfolio. So with -- as you know, the base fee got readjusted down and the ability for us to create and source and analyze successfully the higher-yielding assets across the portfolio, still many investment grade but higher-yielding commercial mortgages and the like, we get a higher return and we get a higher fee base. The more that we're able to produce those assets and contrast that to investment grade corporates, it's a lower fee. So we're exactly aligned with the same long-term objectives. Certainly, there is a comprehensive proposal and the structure has it, the ability for us to generate higher returns. There is a once-a-year look back. But the basic construct of our fee to the benefit of Apollo is very similar, but it creates the right objectives and long-term alignment.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Yes, to be clear, I mean, the fee arrangement day 1 is net neutral to both companies, as we've stated. And -- but over time, look, they're looking for us to provide excess return. And then -- and if we do that, we'll get paid more over time. We don't do it, we'll get paid less, and we're confident of our ability to do it. So that's the alignment Jim's talking about.

Operator

Our final question as a follow-up from the line of Robert Lee of KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst*

I just want a quick question on Catalina. I guess, I just wanted to better understand the recent fundraising in transaction. Was that something that Apollo participated in directly? And should we be thinking of that as another permanent capital vehicle even though you don't kind of list in that fashion?

Gary W. Parr - *Apollo Global Management, LLC - Senior MD*

Between Martin and I, we'll address that. We do not see it as a permanent-capital vehicle so we, for example, we don't manage the assets of Catalina currently. We will provide some services over time to them, so that will increase. But as it is structured, it's somewhat different, but we do see it as a core part of our strategic ability. We are active in active dialogue with Catalina. We actually have already been working on 1 transaction in conjunction with Catalina where we bundled it with others our -- other companies that are in Apollo field, others we work with. So that part, it is a tool and a part of us delivering solutions for the balance sheet.

Martin Bernard Kelly - *Apollo Global Management, LLC - CFO & Senior Partner*

Yes, we don't directly participate in funding that. With the drive a transaction fee, which we mentioned. And then it's sort of a -- as Gary said, it's sort of part of the broader insurance platform where we may be paid management fees for business related to it but not directly related to assets in Catalina.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

But just to be clear, I believe this is in our AUM and in sense, we did what we've done with his platforms, which is we went out and arranged investor capital and put up a GP commitment. So I think we're maybe -- I just want to make sure we're clear. This is just like Athene, just like Athora, we raise this vehicle. We do not manage the assets, but it is, as Gary said, part of a -- it gives us another capability, right, that others don't have that allows us to holistically approach insurance companies with solutions. So I think depending on how you define a permanent capital -- a strategic platform, it either is or it isn't. I think probably it is, but the distinction as to this versus Athene, which is the asset management, has been laid out.

Operator

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

Gary M. Stein - *Apollo Global Management, LLC - MD, Head of Corporate Communications, Client and Product Solutions*

Great. Thanks, operator. Thanks again, everyone, for joining us this morning. We look forward to speaking with you again next quarter.

Joshua J. Harris - *Apollo Global Management, LLC - Co-Founder, Senior MD & Director*

Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude Apollo's Third Quarter 2018 Earnings Conference Call. You may now disconnect and have a wonderful day.
