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APO - Q2 2012 Apollo Global Management, LLC Earnings Conference Call

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## PRESENTATION

### Operator

Good morning, and welcome to Apollo Global Management's Second Quarter 2012 Earnings Conference Call. During today's presentation all callers will be placed in listen only mode. And, following management's prepared remarks the conference will be open for questions.

This conference call is being recorded. I would now like to turn the call over to Gary Stein, head of Corporate Communications.

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

Thanks, Operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President and Gene Donnelly, Chief Financial Officer. Earlier this morning we reported non-gap, after tax economic income of \$0.05 per share for the second quarter of 2012, compared to \$0.31 for the second quarter ended June 30th, 2011.

For US GAAP purposes we reported a net loss attributable to Apollo Global Management of \$41 million for the second quarter of 2012, compared to a \$51 million loss during the second quarter of 2011. Total assets under management, or AUM, was \$105 billion as the end of June and fee generating AUM was \$77 billion.

We declared a cash distribution of \$0.24/share for the second quarter of 2012, which comprises a \$0.07 regular distribution and \$0.17 attributable to realizations from portfolio company and credit investment dispositions, incremental net transaction fees earned during the period and interest and dividend income earned by our private equity and capital market funds.

A few weeks ago we announced the transition of our CFO position. Martin Kelly will be joining Apollo as our new CFO next month, while Gene Donnelly will remain with us as a Senior Advisor through the end of 2012. We're thankful for Gene's leadership and contributions over the last 2 years, as Apollo became a publicly traded company and further grew and diversified its global investment platform. And we wish Gene the best of luck in his future endeavors.

Today's conference may include forward-looking statements and projections and we ask that you refer to our most recent filings with the SEC for important factors that could cause actual results to differ materially from these statements and projections. We do not undertake to update our forward-looking statements or projections unless required by law.



We will also be discussing certain non-gap measures on this call, such as economic net income and after-tax economic manning comp per share, which are reconciled to our GAAP net income or loss, attributable to class A shareholders and GAAP weighted class A shares outstanding.

These reconciliations are included in our second quarter earnings press release. A copy of which is available in the Investor Relations section of our website at [www.agm.com](http://www.agm.com). Please also refer to our most recent Form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to our business.

This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. If you have any questions about any information in this release or on this call, please feel free to follow up with me or Patrick Parmentier after the call.

With that, I'd like to turn the call over to Marc Spilker, President of Apollo Global Management.

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**Marc Spilker** - *Apollo Global Management, LLC - President*

Thanks, Gary, and welcome, everyone, to our 2012 second quarter earnings call. This morning I'll touch on a few topics, including our current views on the market environment, updates on our business segments and the current status of our fund raising efforts.

Before jumping into these discussion points, I'd like to first touch on the new employment contracts that our managing partners entered into last month. During our last call, we mentioned the expiration of the employment contracts with our managing partner's Leon, Josh and Marc, which were signed in connection with Apollo's private offering transaction offered back in 2007.

On July 19th, Leon, Josh and Marc signed new employment agreements, the terms and conditions of which were substantially similar to their original contracts. Under the new 3 year agreements, Apollo's managing partners will continue to receive total annual compensation of \$100,000 and the majority of their Apollo income will be derived from the same declared distributions that our class A shareholders receive.

This arrangement reinforces Leon, Josh and Marc's focus and engagement in the business, and collectively, with their 54% ownership in Apollo, continues the strong alignment of interest in building long term, shareholder value and generating meaningful cash distributions for all of Apollo's shareholders.

Looking back on the second quarter, we continue to execute our business strategy to enhance our position as a leading global, alternative investment manager despite a more challenging economic environment, relative to prior two quarters. As you know, global equity markets were down during the second quarter and they have been particularly volatile since May.

The market's volatile performance was largely attributable to economic reports indicating slower global growth and the ongoing European debt overhang. The focus on day to day headlines addressing possible policy responses by central banks and governments also contributed to this volatility.

We think that it's likely that we'll be operating in a more volatile economic environment, at least through the end of this year, and the US economy will begin to receive heightened political attention with the upcoming November elections and the ensuing, so-called, fiscal cliff.

Furthermore, we believe the secular and structural changes taking place in Europe are at an early stage, which may further contribute to market volatility beyond 2012. Against this backdrop, we continue to see investment opportunities and deploy capital at a healthy pace.

Although realization activities slowed somewhat from the previous two quarters, the market's appetite for additional IPOs have been subdued so far this year. Dialogues with strategic buyers have continued and our funds were able to still monetize certain other credit and equity holdings. Our fund raising activities also continued at a strong pace.

We raised \$2.3 billion of new capital during the second quarter, as institutional investors continue to turn to alternative investment managers for more attractive risk adjusted returns in a low rate environment.



Turning to our private equity business, the overall valuations of our funds and the underlying investments were up slightly during the second quarter after appreciating on a combined basis by approximately 1%, comparing favorable to the performance of the S&P, which was down 3% over the same period.

Although optimism appears to be waning over global economic growth, our private equity portfolio company still performed well through the period ending in the second quarter. Aggregate revenues from our Fund VI and Fund VII portfolio companies were up an estimated 1% during the second quarter of 2012, compared to the first quarter of 2012, while EBITDA increased an estimated 17% on a same sequential basis.

Looking at the trailing 12 months, we saw modest top line and bottom line growth with aggregate private equity portfolio revenues up by an estimated 2% and EBITDA up by an estimated 3% for the trailing 12 months, ended June 12 -- June 2012, compared to the same period as of June 2011.

Consumer oriented companies had stronger financial results relative to the industrial portion of our private equity portfolio, and some of the portfolio companies began curtailing their financial outlook for the second half of 2012, which was consistent with current economic reports that are indicating slow global growth.

Turning to realization activity, our private equity funds continue to monetize investments as selling opportunities present themselves in today's volatile market environment. Within Fund V, HUGHES Telematics recently completed its sale to a strategic buyer, and AMC Entertainment is also expected to complete its sale to a strategic buyer in August.

In addition to strategic sales, we have also used dividend recaps and other forms of capital structure optimizations that result in realizations while the IPO market remains less active. 7 of the portfolio companies we manage now have registration statements on file in preparation for possible IPOs depending upon market conditions.

As you can see, our private equity portfolio continues to mature, and we are building a queue of potential future monetizations as windows of opportunity present themselves. Realization activity from our private equity segment has had a positive impact on our quarterly distributions.

Since Apollo went public in March of 2011, we've averaged just under \$0.27 per share in quarterly distributions. Looking back, this amount included our regular quarterly distribution of \$0.07 and an estimated \$0.08 on average from the realized carry associated with the recurring interest and dividend income earned by our funds.

The remaining \$0.12 on average, primarily related to one time realizations in our private equity funds, showing our ability to generate meaningful cash distributions for our shareholders, even when global markets are volatile and trading sideways.

We also continue to find differentiated investment opportunities that allow us to deploy capital at a very -- at varied points of an economic cycle. We put an additional \$1.7 billion of capital to work during the second quarter, which is roughly double our quarterly average investment pace.

This included \$1 billion of equity from Fund VII, and our new Natural Resources Fund towards the \$7 billion El Paso Energy transaction. Fund VII also invested \$300 million of equity in connection with the purchase of Great Wolf Resorts, and the balance of the capital deployed during the quarter was primarily used to build upon existing positions in certain distress situations.

Now, turning to credit -- our Capital Markets business has become our largest business segment based on assets under management. We closed the acquisition of Stone Tower Capital in April, which we have largely integrated with our credit platform over the last 3 months, and we're already seeing the benefits from this strategic acquisition in a variety of ways.

First, we're currently working on securing a mandate from a large insurance company that originally initiated dialogue with Stone Tower and now is seeking to invest across Apollo's broader credit platform.



Secondly, the integration of Stone Tower has had a meaningful impact on our Management business, with management fee revenues from our capital market segment increasing by more than 40% sequentially in the second quarter, compared to the first quarter of 2012.

In terms of investing across the capital market segment, we're maintaining our focus on Europe as an area full of long-term investment opportunities where we're continuing to expand our investment capabilities. Our second European non-performing loan, EPF II, began to deploy capital alongside EPF I.

In addition to non-performing loan portfolios, we also continued to add managed accounts to target other European credit opportunities. We believe there will be a steady flow of investment opportunities in Europe for years to come, given the structural and secular changes that will likely take place over a long period of time.

Our well established presence in Europe is also allowing us to build trust and credibility with larger banks that we can partner with for future investment opportunities. We also continue to grow our diversified senior loan business. For example, we raised the second CLO this year, which was sized at approximately \$500 million.

The successful completion of this transaction further solidifies our leadership position in the CLO market, and consistent with our recent track record of raising two to three new CLOs each year. Since 2010, we have issued five broadly syndicated CLOs, which, including the Stone Tower acquisition, positions us as one of the largest CLO managers, with more than \$11 billion of CLO related AUM.

We believe that our expertise in CLO products is a great illustration of how we're able to add to our diverse investment platform to fill certain voids of capital formation that have arisen in a shifting financial services industry and also meet the expanding needs of our investors.

Looking now at real estate. We had approximately \$8 billion of assets under management at the end of June and remain active around the world through a variety of real estate investment vehicles. Our debt oriented real estate funds and investment vehicles continue to target real estate related loans and securities in the US, including opportunities in mezzanine loans and both commercial and residential mortgage backed securities.

We're also deploying -- actively deploying capital from our strategic investment accounts into debt oriented real estate investments. In April, we held the final closing for our AGRE US Real Estate fund, bringing total capital commitments to \$713 million. As of today, the fund has committed approximately 30% of its capital for investment in a variety of projects.

Throughout the second quarter, we invested \$407 million of capital in commercial real estate debt, across all of our debt accounts, including Apollo Commercial Real Estate Finance, or ARI, the publicly traded commercial mortgage REIT. ARI completed a preferred stock offering netting proceeds of \$83 million.

In addition, we launched a new leverage CMBS mandate for one of our managed accounts, representing approximately \$150 million of equity. Finally, our publicly traded residential mortgage REIT, AMTG, raised \$250 million of new capital this past April, bringing the life-to-date equity raise to approximately \$457 million.

Turning to fund raising, we raised approximately \$2.3 billion of new capital across all of our [bigger] business segments during the second quarter. This includes an additional \$1.6 billion of new commitments for our second European non-performing loan, EPF II, which now stands at \$2.1 billion of total commitments as of the end of June.

We also added a \$200 million managed account with a sovereign wealth fund, which will focus on global credit opportunities. And the final closing of AGRE US Fund also contributed to the total capital raised during the quarter.

Our dialogues continue with large institutional investors on how we can partner together to provide a customized suite of product solutions to meet their investment needs. However, as I mentioned last quarter, we don't expect to see the same pace of capital inflows for strategic accounts compared to the last few quarters, and we are very focused on successfully investing the capital we have recently raised for our existing strategic accounts.



We continue to believe that the secular changes taking place in the investment industry play to our strengths as a diversified alternative investment manager and will benefit our fund raising efforts. The organic growth that we've seen at Apollo since becoming a public company demonstrates the secular changes that are taking place in our industry.

Institutional investors are continuing to increase their portfolio allocations to alternative investments in a low interest rate environment, and they are consolidating their relationships with larger scale asset managers like Apollo, who have strong investment track records.

In summary, we believe the broader market will likely continue to be volatile and cause our financial results to fluctuate quarter to quarter based on the unrealized values of our fund investments. During the relatively short period since Apollo's gone public, however, we've been demonstrating the ability to expand our investment platform, while also realizing gains that can be returned to our shareholders on a regular basis.

Although the timing and sizing of such gains can be more difficult to predict during periods of volatility, this quarter provides another snapshot of what we're doing across the business to accomplish goals that we believe will collectively build long-term shareholder value, while also generating meaningful cash distributions for Apollo shareholders.

With that, I'll turn things over to Gene.

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**Gene Donnelly** - *Apollo Global Management, LLC - Chief Financial Officer*

Good morning, everybody. I'd like to briefly cover the following items before we move to your questions. The quarterly distribution and related outlook for the rest of the year, performance of our Management business and Incentive business, AUM, the financial impact of the Stone Tower acquisition and key amounts from our balance sheet.

Starting with our distribution, the \$0.24 per share for the second quarter comprises a \$0.07 regular distribution, between \$0.05 and \$0.06 from the recurring portion of our realized carry stemming from interest in dividend income. And the remaining \$0.11 to \$0.12 is an associated with one time realizations from the sale of equity and debt investments, as well as incremental transaction fees.

Given the market volatility that we've experienced recently, it's more difficult for us to predict the timing of future realizations and their resulting impact on future declared amounts. But, as we continue to analyze the business in 2012, and the more stable portion of our realized carry, we think it's reasonable to continue to expect a regularly quarterly distribution of \$0.07 plus another \$0.05 to \$0.10 from the recurring interest and dividend income generated by our funds.

As a reminder, the realized carry associated with recurring interest and dividend income can fluctuate quarter to quarter based on timing of interest and dividend payments and the investment composition of our fund portfolios.

The contractual terms of our fund partnership agreements, and whether a fund is above or below its perspective priority return, also impacts realized carry. Consistent with our distribution policy, there can be no assurance that any distributions will be declared and paid in future periods.

Looking at our Management business results, for the second quarter of 2012, we reported \$70 million of ENI, which compares favorably to ENI of \$35 million and \$31 million during the first quarter of 2012 and the second quarter of 2011 respectively.

The improvement and profitability comes largely from the net transaction fee from the El Paso Energy transaction, combined with our continued efforts to scale our existing platform and ongoing course management initiatives. These favorable items were offset in part by a \$7 million increase in placement fees associated with EPF II, and \$3 million of onetime acquisition costs that were expensed during the second quarter of 2012 for Stone Tower.

Compensation expense in the management business increased from \$84 million in the first quarter of 2012 to \$89 million in the second quarter, and was impacted by higher compensation linked to the El Paso Energy transaction fee, as well as an increase in headcount in our capital market segment associated with the Stone Tower acquisition.



Offsetting these increases was a \$5 million decrease in equity based comp. In prior quarters, I shared with everyone the increases in operating leverage that we were generating as we scale Apollo's business. For example, over the last 12 months our AUM has grown 46%, while our infrastructure headcount has increased less than 10% over the same period.

There was \$6 million of incentive pool compensation recorded in the second quarter of 2012 as profit sharing expense compared to \$21 million of incentive pool compensation in the first quarter of 2012. This decrease was primarily driven by lower realized carry during the second quarter.

As a reminder, amounts determined under our incentive pool arrangement contain both a fixed and discretionary component and will vary quarter to quarter depending on the overall realized performance of Apollo.

Non-compensation expenses were \$69 million during the second quarter, compared to \$53 million during the first quarter, which were largely driven by the placement fees for EPF II and one time Stone Tower acquisition cost.

The other loss in our Management business was impacted by \$3 million of foreign exchange translation losses on foreign held assets in Europe, as the US dollar strengthened relative to the euro and pound during the second quarter of 2012.

I'd like to turn now to our Incentive business, where we report our more variable financial results, including carried interest income and profit sharing expense. Our private equity segment generated \$6 million of total carried interest income during the second quarter, which includes \$43 million of realized carry income offset by \$37 million reversal of unrealized carried income.

There was also \$103 million increase in funds, Vs general partner obligation to return previously distributed carry, which resulted in the reversal of unrealized carried income. The reversal was partially offset by additional unrealized carry income that was recorded for Fund IV and Fund VII based on the underlying net appreciation of their respective fund investments.

After adjusting for purchases and sales, Fund VI depreciated the second quarter by approximately 1%. As of June 30th, an additional \$440 million of a fund depreciation for approximately 4% of the current fair value of Fund VI investments is needed to fully reverse the \$144 million general partner obligation, after which we estimate that the next \$923 million of investment appreciation in Fund VI will result in Apollo earning unrealized carry on an 80/20 catch up basis, whereby each additional dollar of appreciation results in \$0.80 of unrealized carry.

Turning to Fund VII, total carried interest income from our most recent private equity fund includes approximately \$27 million of realized carry income and \$14 million of unrealized carry income. And after adjusting for purchases and sales, Fund VII appreciated by approximately 2% during the quarter.

Our capital markets funds generated an additional \$2 million of total carried interest income, including \$19 million of realized carry income, offset by \$17 million reversal of unrealized carry income.

EPF I and the Stone Tower funds each had approximately \$18 million of unrealized carry income that was offset by \$27 million reversal of unrealized carry income for our distressed and event driven hedge funds and a \$21 million reversal of unrealized carry for our Senior Credit funds which was largely driven by our Credit Opportunity fund, COF I, which holds 37 million shares of Lyondell.

And, as we shared in prior quarters, certain of Apollo's private equity and capital markets funds collectively hold \$171 million shares of Lyondell, which traded down 8% during the second quarter of 2012 and since has largely recovered during the third quarter.

Also, our investment in HFA, the parent company of Lighthouse Partners, which manages fund of hedge fund portfolios, is accounted for on an as converted basis based on the underlying stock value of HFA which is an Australian public company.

The value of our HFA investment declined by approximately \$13 million in the quarter and is reflected in our incentive business results for capital markets. Apollo's total AUM as of June 30th was \$105 billion. During the second quarter of 2012 we added approximately \$19 billion of AUM from the Stone Tower acquisition and \$2.3 billion of new capital raised, as Marc discussed earlier on the call.



Also, at June 30, 2012 there was approximately \$10.7 billion of AUM related to the Athene Life Reinsurance platform. This amount now includes approximately \$3.5 billion of AUM managed directly by Apollo in its capital markets and real estate funds, which is up more than \$500 million during the second quarter of 2012. For the remaining \$7.2 billion, we provide asset allocation and related services, including approximately \$1.3 billion of AUM that is expected to run off over the next 12 months.

Turning to the Stone Tower acquisition, we have made significant progress with the integration of the Stone Tower business into our capital markets group. Management business results will be impacted for the second half of the year by approximately \$9 million of remaining one time integration costs. And, including the Incentive business results, we continue to expect that the acquisition is ultimately accretive to Apollo in 2012.

Looking at our balance sheet as the end of June, we had \$620 million of cash and our gross carried interest receivable was \$1.3 billion. After offsetting the corresponding profit sharing payable, we had a net carried interest receivable of \$637 million.

The amount of Apollo's balance sheet investments in its private equity capital markets and real estate funds, as well as our investment in HFA, was approximately \$446 million. That excludes consolidated VIEs and other consolidated funds. Our debt holdings remain constant at \$738 million as of June -- at the end of June.

Finally, for the quarter, our ENI effective tax rate of 55% was higher than prior periods due to the incremental transaction fee income we discussed. We continue to estimate our ENI effective tax rate on an ongoing basis at 8% to 10%.

With that, we'll open up the line for your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Thank you.

(Operator Instructions)

Your first question comes from the line of Howard Chen with Credit Suisse.

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**Howard Chen** - *Credit Suisse - Analyst*

Good morning, Gene.

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**Gene Donnelly** - *Apollo Global Management, LLC - Chief Financial Officer*

Hi, Howard.

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**Howard Chen** - *Credit Suisse - Analyst*

Marc, you made the comment that you're curtailing your growth forecast. Can you just provide a bit more color on what specifically you're all seeing that makes you want to take that stance?

And, secondly, can you tie that together with how that impacts your view on fund returns and ultimately monetizations?





**Marc Spilker** - *Apollo Global Management, LLC - President*

Yes. The comment was made in the context of portfolio companies having the same view that we're hearing from the general market, which is expectation of slower growth.

So, it was in that context at the portfolio company level. But, as you know, given the volatility of the underlying market, expectations of growth are shifting around quite dramatically. So, in the short run, when expectations lower we see lower mark-to-markets on the portfolio companies, but that's going to vary from quarter to quarter. And, if anything, it pushes realizations out a little bit.

But, I also made the comment that, given the nature of our portfolio, we think there are things that are ripe for monetization when the -- when the window opens up, you know, subject to better market conditions. So, that was the context that I said it in.

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**Howard Chen** - *Credit Suisse - Analyst*

Okay. Great. Thanks for clarifying that, Marc. And then, secondly, the firm's been among the most active of your peers in Europe. But, you've also been of the belief that maybe some of the near term market opportunity was a bit over-hyped by some. So, I just -- how would you describe the progression of the European landscape today?

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**Marc Spilker** - *Apollo Global Management, LLC - President*

Yes -- we've taken the view that this is the nature of the financial markets are changing in Europe and the issues that they have are going to take a long time to fix. And so, we think this is really structural and secular, and so we're being very patient.

And, as we've described before, we think the opportunity comes in two forms; one is, over time we believe the bank balance sheets in Europe will decrease and opportunities to buy things. And it's certainly not setting up as a classic distressed opportunity, but, we're seeing many opportunities in the NPL space and in the real estate space and, as mentioned, in EPF I and II, continuing to take advantage of that,

And recognize that the pace may seem slow, but, given the size of our funds relative to the overall size of the market, for us, there's enough interesting things to do and we're very focused on that.

I also think that that's an opportunity that requires a lot more than just capital. I think having partnerships with the sellers, being able to have the capital to close transactions, being able to structure -- because many of these things are very complicated. And the thing that we have mentioned many times in the past is, if you look at the acquisitions that we've made, the sheer number of on-the-ground services we have in Europe, we believe that will continue to create an ongoing competitive advantage.

And then, the other thing I referenced in our script is the other side of the opportunity where capital is still needed, both at the institutional and individual level in Europe. And, we continue to find ways to bring -- either by secondary loans and bonds at prices that are really attractive, or participate in creating new primary loans because Europe needs a new capital source.

And we believe that partnering with the existing financial institutions is going to be a big opportunity for us on an ongoing basis and that business is continuing to grow. And, I'll just say what I've said every quarter that this is going to take a really long time. So, I think that you really need to be patient as you build this business.

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**Howard Chen** - *Credit Suisse - Analyst*

Understood. Thanks for the update on that, Marc. And then, just finally for us, a small numbers related question. But, what's the driver of why the fee yield in capital markets increased this quarter?



**Marc Spilker** - *Apollo Global Management, LLC - President*

Which number are you referring to, Howard?

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**Howard Chen** - *Credit Suisse - Analyst*

I think, when we were walking through everything, the fee yield within the Capital Markets business was going up and we thought it might be going down.

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**Marc Spilker** - *Apollo Global Management, LLC - President*

Yes. So, we added -- in the quarter we've got AUM additions from, not just Stone Tower, but also EPF II coming on board. And I think that's probably what you're seeing coming through, helping to drive that yield back up from Q1, which what I think you're referring to.

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**Gene Donnelly** - *Apollo Global Management, LLC - Chief Financial Officer*

Yes, Howard. I think Marc commented on absolute dollar growth and not yield.

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**Howard Chen** - *Credit Suisse - Analyst*

Right. No. No. I guess, Gene, just to clarify, I thought -- we thought the inclusion of the CLOs might bring that yield down a bit more.

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**Gene Donnelly** - *Apollo Global Management, LLC - Chief Financial Officer*

Yes. There were two effects, Howard. One is the inclusion of Stone Tower and the incremental EPF II fund raised. And, given the fees on EPF II, relative to the CLO business from an average fee basis it was actually a creative.

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**Howard Chen** - *Credit Suisse - Analyst*

That makes sense. Thanks so much.

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**Operator**

Your next question comes from the line of Marc Irizarry with Goldman Sachs.

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**Marc Irizarry** - *Goldman Sachs - Analyst*

Great. Thanks. Hey, everybody. Marc, I think you mentioned that you're putting money out in distress situations for Fund VII. I was wondering if you could elaborate on that. It sounded like you said it was sort of a -- in some existing investments. And then maybe you could put a little collar on where you see the incremental opportunities to put capital to work there.

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**Marc Spilker** - *Apollo Global Management, LLC - President*

You know, I can't shed any specific light on any one opportunities other than, we have built a handful of positions that we think are going to create long term value and continue to see opportunities to reinvest in those positions. And, we think we're in this, kind of environment where that will continue.

And, in general, in the larger scheme of where we see opportunities, I still think we're on the same themes that we've been talking about for the last 3, 4, 5 quarters, which is, Europe, that I just discussed, natural resources and we'll continue where we see opportunities in stress and distress to grow those positions.

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**Marc Irizarry** - *Goldman Sachs - Analyst*

Okay. And, it seems like you've got a lot of the, you know, credit oriented type of strategies already in place to capitalize on those themes. I guess, if you look at Fund VII, relatively fully invested at this point -- almost fully invested, how should we think about Fund VIII on the opportunistic side in terms of maybe the size of that fund and what we should think about from fund raising there?

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**Marc Spilker** - *Apollo Global Management, LLC - President*

Yes, given where we are in Fund VII, and I think it's reasonable to expect that later this year we will launch Fund VIII. And so, we're getting much closer.

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**Marc Irizarry** - *Goldman Sachs - Analyst*

Okay. And then, just, Marc, on the separate accounts, it sounds like maybe they're -- or the strategic accounts. It sounds like maybe there's an opportunity set there -- how you mentioned we'll be slower. Is that just given the fact that you did have some large wins and sort of the rate of change is slower? Are you seeing something different in the way that institutions are looking to put money to work?

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**Marc Spilker** - *Apollo Global Management, LLC - President*

I think the dialogue is exactly the same that it's been for the last 6, 8 quarters. But, just given the -- given the specific number of large wins that we had, we don't think that that's a sustainable pace. But, I also try to reference in my opening script that dialogues about cross-platforms, solution-driven business is still continuing. And so, we're focused on that business and I do think that we will see more.

And there may be, down the road, more large wins, but I think it's more reasonable to expect smaller wins. And, I hope that we'll see larger ones, but I don't think that it's reasonable to expect the same pace going forward.

But, to make the point which you bring up is that, it's really important to note that the nature of the dialogue is very similar; that we're seeing many accounts who are looking at the global opportunity in credit and want to try to access the platform across multiple products. And, that's a trend that we think is here for a while.

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**Marc Irizarry** - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

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**Operator**

(Operator Instructions)

Your next question comes from the line of Alex Graham with UBS.

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**Alex Graham** - UBS - Analyst

Hey, good morning. Just coming back to the line of questions around Europe earlier. I think you made the prepared remark comment that there's obviously long term secular changes. I think most of that was in relation to obviously the credit business, but can you also touch on the private equity business a little bit?

Do you think some of the changes over there will motivate sellers more, maybe prices come down? And, do you see particular industries where you might be a little bit more active here in the near to mid-term?

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**Marc Spilker** - Apollo Global Management, LLC - President

Our current view is that, obviously, classic private equity is far more challenged in Europe, for obvious reasons and the majority of our focus has been on credit. It doesn't mean -- and we're still doing what you would expect us to do, as we have a great team in Europe and we're continuing to look for opportunities.

But, it just seems, at this point in the cycle, that the risk adjusted returns on the credit side of the business in the areas that I described is far more attractive. It's possible -- it's entirely likely that the fees issue a way out, that over time there will be some very interesting private equity situations that will develop. But, that's probably a little bit down the road.

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**Alex Graham** - UBS - Analyst

Okay. Great. Just in terms of realizations, I think you talked about the IPO pipeline a little bit. What about strategic buyers? Any changes you're seeing in terms of, again, some of the portfolio companies that you have, or just that the dialogue increasing or strategic buyers a little bit shell shocked in this volatile environment as well?

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**Marc Spilker** - Apollo Global Management, LLC - President

No. I think that it's the same that it's been where -- and I know this is a generalization, but strategic buyers continue to look for ways to grow their company and they continue to have lots of cash on the balance sheet.

And so, given where many -- and I've described, given where many of our company -- many of the companies in our portfolio -- in our funds are, that it's -- it means that there's some healthy dialogue; and that continues. And so, I don't know exactly where that will go, but I would say that the dialogue is where it's been in the last handful of quarters. And we described two situations last quarter and our expectation and hope is that will continue.

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**Alex Graham** - UBS - Analyst

All right. Cool. That's it for me. Thank you.

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**Marc Spilker** - Apollo Global Management, LLC - President

Thanks.



**Operator**

(Operator Instructions)

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

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**Ken Worthington - JPMorgan - Analyst**

Hi. Good morning. A couple questions on real estate. I know it's a smaller business for you, but, one, the real estate business, kind of industry wide has been more active. How do you think the wave of realizations here, kind of -- how does -- how do you think about this wave of realization is relative to your own real estate portfolio?

And, do you think this is an environment where you're seeing more opportunities for realizations, or perhaps deployment as well?

And then, secondly, some of your competitors have made forays into the real estate housing market trying to make that work and I think you've partnered to explore that class in London. Is there also opportunity to explore it in the US, and -- I don't know -- your gauge of LP interest in that model here?

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**Marc Spilker - Apollo Global Management, LLC - President**

Yes, I would say on the first, I'm not sure, necessarily, what you mean about realizations. I would say we're -- we have our legacy CPI funds that we continue to work on and our new real estate fund that we continue to invest.

And, on the investment side, as I mentioned in my opening script, we're very focused as well on the debt side of the business. And then, when you put that all together -- the second part of your question is, we do see significant opportunity in -- I guess it's being referred to as the, own to rent business, interesting cash yields; a segment of the market that needs capital and we're building expertise in that.

So, we see opportunities as others do. And, I think that that's going to be an interesting segment to allocate capital to, and we're going to do so in the context of the size of our funds. But, that's something that I think will be a growing opportunity.

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**Ken Worthington - JPMorgan - Analyst**

Okay. In the US and in Europe, in terms of a --?

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**Marc Spilker - Apollo Global Management, LLC - President**

Right now we're focused on the US.

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**Ken Worthington - JPMorgan - Analyst**

Okay. Great. Thank you very much.

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**Operator**

Ladies and gentlemen, we have time for one final question. Your final question comes from the line of William Katz with Citi.

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**William Katz** - *Citi - Analyst*

Hi. This is actually [Neil] filling in for Bill.

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**Unidentified Company Representative**

Hi, Neil.

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**Unidentified Participant**

You might have addressed this earlier, but, can you go over some of the dynamics of the carried interest for this quarter? I noticed the gross carry was positive, yet the profit share actually (inaudible). Can you just provide a little more color? Thank you.

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**Gene Donnelly** - *Apollo Global Management, LLC - Chief Financial Officer*

Sure. I think, in large part it's a Funds VI phenomena. And we discussed this on the call for the previous quarter as well. You can have situations where the funds will generate realized carry, yet at the end of the quarter, on a GAAP basis, when you value all the hypothetical -- you value all the fund's investments on a hypothetical basis, you come up with a different result.

And so, the interplay of Fund VI having a realization event during the quarter, and then the valuation at the end of the quarter on a hypothetical liquidation basis, for GAAP purposes drives some of the differences.

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**Unidentified Participant**

Okay. Thank you.

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**Operator**

Thank you. This concludes today's teleconference. Please disconnect your lines at this time, and have a wonderful day.

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