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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management 2014 third quarter earnings conference call during today's presentation all callers will be in a listen only mode. Following management's prepared remarks, the conference call will be opened up for your questions. This conference call is being recorded.

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

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

Thanks operator and welcome everyone. Joining me today from Apollo our Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer.

Earlier this morning Apollo reported non-GAAP after-tax economic net income of \$0.12 per share and distributable earnings to commons and equivalent holders of \$0.77 per share. Also we declared cash distribution of \$0.73 per share for the third quarter of 2014 representing a 95% payout ratio.

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

We will also be discussing certain non-GAAP measures on this call such as economic net income and distributable earnings which are reconciled to our non-GAAP -- to our GAAP net income attributable to class A shareholders. These reconciliations are included in our third quarter earnings press release which is available in the investor relations section of our website.

Please also refer to our most recent 10-K for additional information on non-GAAP measures and risk factors relating to our business. As a reminder, this conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow up with me or Noah Gunn after the call.

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



Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

Thanks Gary. This morning I'd like to touch on a few topics including our current views of the market environment given the recent volatility. But first I'd like to briefly summarize some of the highlights from our third-quarter results with a few key takeaways. We remain active in monetizing our portfolio and delivering significant returns to our investors. The funds we manage generated a total distribution of \$4.6 billion during the third quarter which resulted in nearly \$0.5 billion of gross realized carry.

Private equity transactions behind the majority of that activity were executed at a weighted average multiple in invested capital of nearly 4X reinforcing our best in class track record in private equity. In addition, our management business ENI of \$131 million during the quarter was more than double the amount of a year ago. Strong realized gains in PE and solid performance in our management business were the primary drivers of our \$0.73 per share cash distribution in the quarter.

Our fundraising efforts, our ability to identify and originate new business opportunities, and our solid investment performance continues to drive our business forward. To put some numbers around this point are a AUM or asset under management are up 45% year on year to \$164 billion while feed paying AUM is up 63% to \$130 billion. Contributing to our AUM growth was nearly \$3 billion of capital that was raised during the quarter.

Finally, we remain active in deploying capital in a variety of differentiated investment opportunities. Although we continue to remain net sellers in the current environment, we continue to find what we believe are well priced investments. Across our platform we deployed more than \$2 billion in the third quarter and the pipeline of committed but unfunded deals in private equity stood at \$1.7 billion at September 30.

In addition, we announced several transactions post quarter end including Tranquilidade, Express Energy Services, and Parisian insurance bringing the total pipeline of equity committed to \$2.4 billion today. As you know, over the past six weeks, the markets have experienced a period of increased volatility given oil priced depreciation, uncertainty around Fed tightening, Ebola fears, and fears in Europe around the pace of economic growth. From mid-September to mid-October looking through the intraday activity, trading activity, and the S&P 500, the index decline 10% from peak to trough before recouping some of its losses very recently.

And the yield on the 10 year treasury dropped 80 basis points during that time and fell briefly below 2% while the VIX peaked at 26 before retrenching below 15 earlier this week. Spreads remain near all-time high tight and credit markets have also experienced volatility recently.

As measured by certain leading indices, the high-yield market was down nearly 200 basis points during the third quarter and leverage loans were down approximately 50 basis points. None of this comes as a surprise to us as we have been saying for quite some time now that the credit markets are priced to perfection.

So what is our take on all this? Broadly speaking, we expect volatility to continue but this doesn't concern us, in fact, we like volatility since we believe it creates attractive investment opportunities and our current portfolio is well positioned for the long-term.

First on equity markets and our impact on our private equity business. As it relates to capital deployment as value foreign investors, we would like nothing more than for the rich valuations in the marketplace to withdraw from the current high levels. We believe that pullback in equities ultimately helps to drive pricing downward to levels where we feel more comfortable putting our clients capital to work.

In private equity, we have more than \$22 billion of capital available to deploy, and we're actively engaged in identifying pockets of the market where declining valuations are creating opportunities. Of course when the equity markets pullback our portfolio may experience unrealized market to market losses. However, focusing on the marks over three-month span and a short term view versus the ultimate value created for our investors over the long term.

The reality is that the portfolios are performing well overall, the current portfolio of public equity holdings in the private equity funds we manage consisting of 14 companies have outperformed the S&P 500 by 46% on a weighted average pace since their respective IPOs. So our conviction in the performance and value of those assets in our portfolio remains undeterred.

As it relates to exit activity, it's no secret that we've been very actively utilizing the healthy equity capital markets over the past 24 to 36 months to monetize investments. The funds we manage have generated \$29 billion private equity realizations since the beginning of 2012.

As you know this activity has generated robust realized gain and cash distribution for our investors and shareholders and the strong pace of activity has continued into the fourth quarter with several announced transactions that have not yet closed. Equity markets based pressure we would anticipate a later concentration of share sales as a percentage of overall exit activity. However, if this were to happen, we believe that other channels would continue to be available to drive exit activity.

Corporations and financial sponsors are sitting on record levels of cash and dry powder we are observing the dialogues are becoming increasingly miraculous. This trend is evident were looking at the amount of sales within our portfolio during the third quarter such as in Canada acquisition of Athlon, Eastern Chemical acquisition of Tamiko, or Norwegian Cruise line acquisition of Prestige. In many cases, strategic deals are done at a premium to public equity market valuation.

And historically these types of monetization represent a little more than half of the exit deals we do. It is mainly because equity markets have been so accommodative in recent years that we've seen a moderation in strategic sales. Less than 20% of our gross realized proceeds coming from strategic or sponsored buyers since the beginning of 2012.

Next, I'd like to discuss interest rates. And specifically reiterate some of the comments I made on our last call regarding a rising rate environment and it's proceed impact on our credit business.

Out of our nearly \$108 billion of total credit AUM our funds manage very little in the way of rates sensitive assets. In fact, excluding all of Athene assets, which are an insurance company that is designed for assets to match liabilities, so there is no -- so it is designed so that the -- there is no real duration, the duration of our credit portfolio is just under one year.

We have intentionally -- we have an intentionally large exposure to floating-rate assets so we would welcome a rising interest environment and believe that it would be beneficial to our investment performance. We believe that any credit market dislocation would likely result in a quicker pace of deployment of our drawdown credit and private equity funds which tend to generate higher management and incentive fees. We see this as a tremendous opportunity for our business as we have historically outperformed in these types of scenarios.

The last area I'd like to address is the perceived impact of oil prices on our business. Broadly speaking, the decline in oil prices to current levels is not surprising to us. In the short term the price of oil is difficult to predict and it certainly has the ability to detach from long-term fundamentals.

Even at these lower prices, we believe energy is a very interesting place to be investing capital and were tactically working to take advantage of the market dislocation. Specifically, we continue to see this as an opportune time to buy physical assets in the ground at significant discount to energy prices implied by the financial markets. We're able to create these opportunities by leveraging our extensive resources including deep industry and technical expertise as well as seasoned management teams located across the continent.

At the same time, we were assessing new investments. We are actively managing our current portfolio. As of September 30, the net exposure to energy investments in private equity and credit, excluding Athene, was less than \$5 billion or approximately 7% of our total invested capital in those segments. Where and when we think it makes sense, we are monetizing pieces of the energy portfolio.

This was the case with the recently announced the sale of Athlon energy which was negotiated before the selloff in oil. For the remaining investments in the funds that we manage, the companies employ a robust hedging strategies. In addition, we believe we use very conservative underwriting assumptions in our investment decisions. So in summary, although it can be volatile, we continue to believe that energy investing is one of the few arbitrage opportunities in over-valued markets.

Before concluding, I just like to remind everyone that we've now been public for roughly 3.5 years and we believe our growth to date has exceeded the high expectations in place at the time of our initial offering. To help provide you with a more transparent view of our business as well as articulate the next leg of growth, we will be holding an investor day on December 11th and we really hope that you are able to join us in person or via webcast.



With that, I would like to turn the call over to Gary for some specific highlights on each of our businesses. Thanks Gary.

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

Thanks Josh. Starting with private equity the funds maintain the strong pace of realization activity in the third quarter which resulted an aggregate distributions of \$2.8 billion of capital to our fund investors. In the process we earned \$370 million of realized carry in private equity which was a primary driver of our \$0.73 per share cash distribution this quarter.

Specifically, these realizations were driven by numerous transactions including secondary and/or block share sales of our funds remaining interest in Berry Plastics as well as some of our fund interest in Athlon Energy, Rexnord and Sprouts Farmers Markets. Subsequent to these transactions, the funds we manage held the following: Fund VI held 12.9 million shares of Rexnord, and 27 million shares of Trust, and Fund VII held 25.2 million shares of Athlon at the end of the quarter before giving the effect to the announced pending sale to Endcota.

Touching on capital raising, our first natural resources fund is over 70% invested or committed as of September 30 with strong performance to date. We expect to launch fundraising for successor fund an early next year. Regarding capital deployment within our private equity funds activity increased in the third quarter largely due to the closing of Jupiter Resources purchase of assets from Endcota.

Turning briefly to our credit business at the end of the third quarter we had \$108 billion of AUM in credit which includes \$48 billion related to Athene, \$25 billion in US performing credit, \$15 billion in structured credit, \$11 billion in opportunistic credit, and \$9 billion in European credit strategies. During the third quarter, fundraising activity of \$2.4 billion within credit was led by \$2 billion of inflows for third credit opportunity fund. This brings total fund commitments to \$3.4 billion reaching it's hard cap and well exceeding its initial target by \$1.5 billion.

Importantly, the investment period for this fund began in June and the fund is already approximately 1/3 invested. Credit fundraising was also bolstered by commitments to several other funds totaling approximately \$400 million in aggregate. Notably \$150 million of that total was from an increase in an existing strategic manage account which speaks to a trend of not only receiving sizable new mandates but upsizing existing accounts.

So far in the fourth quarter we have extended our relationship with another strategic account by an additional \$275 million. By providing LPs with holistic unconstrained credit solutions targeted to their needs, we believe we are providing a differentiated service that is not easily found elsewhere in the marketplace. Importantly, we remain active in deploying capital in a variety of differentiated credit investment opportunities with nearly \$1 billion deployed in our drawdown type funds during the third quarter.

Lastly on real estate, we remain active in real estate debt and so far this year the funds we manage deployed approximately \$1.3 billion in first lien mortgage loans, mezzanine loans, and CMBS. On the equity side, we remain opportunistic across property types and geographies. Are US private equity real estate funds base capital is now fully invested or committed, so we look forward to launching the fundraising process for our next funds in the coming months.

With that, I'd like to turn the call over to Martin for some comments on our financial results.

Martin Kelly - Apollo Global Management LLC - CFO

Thanks Gary and good morning everyone again. Starting with our management business for the third quarter, Apollo management business earned \$131 million of ENI exhibiting strong year-over-year growth. Looking quarter over quarter, rising management business revenues were driven by higher advisory and transaction fees which increased due to deployment related fees.

In terms of management business expenses, the modest quarter over quarter increase was driven by \$6.5 million of placement fees related to the final closing of code 3 and a true up of interest expense to reflect the full quarter impact of our load offering and May. The modest loss in other income within the management business was driven by adverse foreign exchange movements of approximately \$5 million which resulted primarily

from the depreciation in the Euro and British pound. We believe our management business margins are healthy and as we achieved increasing amount of scale, we expect our margins to benefit over time.

That said, we will continue to strategically invest in the business by adding talent and capabilities to facilitate additional growth. Given the ongoing hiring activity across the firm, which included 6% headcount during the third quarter, we expect compensation expense to continue to increase in the near turn including in Q4 given the timing of funds accruals for new hires condensed over shorter timeframe.

Turning to our incentive business. In private equity, our traditional private equity funds depreciated by approximately 2% during the third quarter which was driven by approximately 2% depreciation in publicly traded equity portfolio holdings, some [March] and publicly traded debt holdings and approximately 1% appreciation in private holdings.

In credit, excluding Athene's non-subsidized assets, our funds continue to perform well with most pockets of our business generating modest positive gross returns during the quarter in the face of the more challenging backdrop that Josh described. That said, we had a couple of funds that need to develop bit below their hurdles or did not appreciate enough to maintain the accrual of their hurdles which contributed to their sequential moderation in carry income.

Of the roughly \$14 billion and carry eligible credit AUM not met earning carry, approximately \$6 billion is related to funds that are below their respective preferred return hurdles and the rest represent dry powder. On an aggregate basis, the \$6 billion of carry eligible credit funds in the ground and not currently generating carry are less than 2% away from reaching their hurdle as of September 30.

Lastly on the incentive business as we have noted in prior quarters there was a discretionary incentive for compensation accrual in the quarter of \$16 million within the profit share expense. As a reminder, this incentive pool is separate from fund level profit sharing which can be positive or negative depending on marks and therefore can have a variable impact on the profit share ratio during a particular quarter.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter, first, the percentage of Athene related assets invested in Apollo managed funds was approximately 20% or \$12 billion as of September 30, 2014, up from 17% as of June 30. As was stated previously, we expect the [sub advised] assets under management to increase gradually over time as long as we continue to perform well and providing asset management services to Athene and also identify opportunities to deploy their investment portfolio.

Next, Apollo has been receiving and will receive for one more quarter monitoring fees also known as the capital and surplus or CNS fee. For the third quarter this fee was \$58 million.

The non-cash CNS fee was being settled on a quarterly basis in arrears in the form of additional shares of Athene based on its per-share valuation at the end of each quarter. And is appearing as incremental value on our balance sheet.

As of the end of the third quarter Apollo had a 6.9% economic ownership interest in Athene. This includes earned CNS and related fees through the second quarter of 2014 as well as Apollo's general partner stake as the manager of AP alternative assets or AAA. In dollar terms Apollo's economic interest in Athene is valued at \$323 million on our balance sheet as of September 30. Note that this amount excludes the \$121 million gross carry receivable related to AAA as of September 30 and \$58 million of CNS and related fees earned in the third quarter that we also expect to be paid in shares of Athene at a future date.

With regard to our cash distribution, the \$0.73 we declared today includes our regular distribution of \$0.15 plus \$0.58 of other cash earnings. The additional amount above our regular distribution was primarily driven by carried interest earned from the transactions that Gary mentioned earlier.

Based upon announced transactions from our private equity funds that were not yet closed as of the end of the quarter, including the sales of the remainder of our funds holdings of [F1] and Tomiko and some cash carry we expect from the sale of Prestige to Norwegian, we anticipate net realized carry of approximately \$0.37 per share over the fourth quarter and or first quarter of next year pending the timing of the successful close of the transactions.



One last point I would like to mention pertains to the [S growing] of distributions due to the general (inaudible) of a fund which is a standard industry provision that is triggered when a fund reaches a particular threshold. This typically occurs as the fund gets closer to the end of its life. As of the beginning of the fourth quarter Fund VI went into what we call escrow which occurs when the fair value of the remaining investment in the fund falls below 115% of the remaining cost of those investments.

In the case of Fund VI this percentage was at 108% as of September 30 and as long as this percentage remains below 115% any Fund VI distributions due to Apollo as the general partner will not be paid out and instead will be held in escrow.

It is important to note that although it is difficult to forecast how long Fund VI will remain in escrow, as of the end of the third quarter if all of the remaining investments in the fund were to be liquidated at their current marks, any distributions that would've been held in escrow would've been paid out to Apollo as the general partner. At September 30, our total net carry receivable across the firm was \$1.81 per share and of that total the Fund VI component amounted to approximately \$0.16 per share.

With that, we will turn the call back to the operator and open up the lines for any of your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Bill Katz, Citigroup.

Steve Fullerton - Citigroup - Analyst

Hello. It's Steve Fullerton filling in for Bill. First question, just the media seemingly has picked up number of articles talking about possible regulatory scrutiny picking up on the industry.

Can you just speak about that broadly and specifically on the IRR issue?

Martin Kelly - Apollo Global Management LLC - CFO

Josh, this is Martin. We are aware of the article; we are not aware of any investigation relating to the IRR for this matter. We do include GP capital in our net IR articulations and the reason we do that is because we calculate IRRs at that fund level and not at the investor level.

We are very transparent in our disclosures to our investors. And if you look at the impact of including versus not the DGB capital and the calculation, it's small. And if you take fund 7 in our case the net IRR like to date would be approximately 20 basis points different. So, we believe our disclosures are transparent and consistent with what we've done previously and we believe is good practice.

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

Yes. And I would just add that there is no industry standard.

And I think the focus of the article is really around whether funds are transparent about how they calculate their net IRRs as opposed to whether it is appropriate or not in terms of how calculations are done and again there is no industry standard in that regard.



Steve Fullerton - Citigroup - Analyst

Okay and appreciate the commentary on dry powder and private equity and credit.

Can you just talk about geographically where you see dislocations given recent volatility to invest?

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

Yes. I'd say that, Josh, I'd say that clearly in Europe were seeing dislocation relative to the softening of the economy over there and certainly in the big downtick in oil prices has created some opportunity in our credit business. Those would be the -- and also, the strengthening of the dollar has hurt basic materials and natural resources away from oil. And so I'd say those are the three areas that just stand out.

But any time you get volatility, you're going to get more opportunity across the board. But those would be the areas that I would highlight.

Steve Fullerton - Citigroup - Analyst

Great. Thank you very much.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - Autonomous Research LLP - Analyst

Hello, guys. Thank you.

My only question is around the disclosure. I'm curious why you decided to take out the cost in fair value disclosure.

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

Generally speaking, we found that there was enough disclosure in the release to help people understand, obviously, where the funds are. We have done a lot of disclosure on the investment record table. And I think we generally thought that was it was causing more confusion in terms of the cost versus fair value.

You would've noticed that, with respect to credit, for example, the cost and fair value only represented a small portion of the total credit business. So we felt that it was not necessarily giving you a full view of a credit business and therefore, felt that it is best to just refer to the investment record tables on the other disclosures and the release.

Martin Kelly - Apollo Global Management LLC - CFO

And I would also just put that into context of other disclosures that were added in the last three or four quarters which we think are a more useful presentation of our results.



Patrick Davitt - *Autonomous Research LLP - Analyst*

Okay. Thank you.

Operator

Michael Carrier, Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. First question, just on the growth outlook. And I guess it depends on what you hope for because you get to pull back. You can deploy more capital and markets remained strong and the distributions continue.

So assuming steady-state environment when you think over the next one to two years, given that your portfolio is-- the returns are there and so you can continue to distribute, how should we be thinking about kind of the net growth you know of the business?

So fundraising, less distributions, obviously year over year the growth rate has been great. But more recently, given that the distributions have been strong (inaudible), I just wanted to get your sense, when you're managing the business, how do you think about that over the next couple of years?

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

Yes. So the way I would think about it is we, organically, are growing our credit business really just through all the opportunities that are being created by just the pullback of the banking sector globally. And we would expect to be able to grow our credit business organically double-digit.

And what I said in the past is that, in the background, we have what we call our R&D lab and we are always working on new things that might staircase the firm. The latest one of those was Athene which brought on \$60 billion of assets over a few years. The one before that was similar leveraging credit trends we did during the financial crisis. And so it is really hard to predict when the next opportunity will come, but that obviously would staircase the growth of the firm.

And then you have Tucking acquisitions and, again, we have had two of those and continue to work on some others. And then, yes, private equity, obviously, as we discussed the large flagship fund has recently been raised. You'll have some small incremental funds that are being raised, a couple of which we mentioned be on this call. Relative to the natural resources, the next fund in natural resources, and the next fund in real estate, but that's likely to be relatively incremental vis-a-vis the size of the private equity business. So that is the way I would describe it overall.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. That is helpful. And then, just on two of the areas that you mentioned both Europe and then in the energy sector. Just when you're making those investments, just given some of the uncertainty particularly on the European economy and the price of energy. When you're making those investments, how do you gauge like the downside or protect the downside?

Because, obviously, on the European side, if we are stagnate for a few years. There something that you guys can do on the portfolio company side, but just trying to understand how you go through that thought process. And thinking with energy, if the dynamics are changing versus the last 30 years because of production in the US, how do you can factor that in, in terms of the investment outlook?

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

Yes. I will start with energy. And then I'll get to Europe. I'd say that in energy we always look at the long-term fundamentals, not the short term market fluctuations in price. And when you look at energy -- so the move down in oil is not surprising to us. When you look at the fundamentals of energy and you really look through the sort of training plans, what you see is that the supply curve where oil is economic it's very flat at around \$80.

So, therefore, if the price of oil were to drop for an extended period of time below \$80, you would see, ultimately, the withdraw supply in the marketplace. And therefore, while the price of oil can go down below \$80 for some period of time, of course, and even some moderate period of time, if you're looking over five-year period or longer-term period just how we gauge our investments, it's likely to be at that price or above.

In terms of the upside on oil, it's certainly geopolitical events and other things can knock it up. If you go into it and you have -- so we look at things and we say: Okay, where we buying? And most of what we're doing in oil and gas on the private equity side -- we're buying oil and gas at a pretty significant discount to that price, even today. So even though that price is today at \$80 and it was at \$90 a few months ago, for us, we were always buying below \$80 anyway. Because we didn't really focus on that current price we were always focusing on the \$80 to begin with.

So we feel like what is driving our ability to continue to put money to work in oil and gas and energy in North America is our expertise and our ability to buy assets through the management teams we have deployed all over North America that we think -- so we have a bit of an edge in terms of how we do that.

In Europe, we always -- even though Europe appeared to be growing in some ways, we always looked at Europe as being flat and if the investment worked. I had a lot of -- early in the recovery in Europe people coming in and saying: Well, look, if Europe just gets back to where it was before the last recession look at how much money we can make on these investments, And we never really bought that. We always felt that Europe would be relatively flat so if you can make money in a flat environment in Europe, we'll look at the investment.

Clearly there's probably upside to that and Europe itself is not uniform. As you get into investing you might be investing in the UK. That's a better growth environment than say some areas in southern Europe.

You might be investing in Germany although there's been some recent flattening in Germany that's a better growth environment than other places. So Europe, I just make the point it's not really uniform. But those would be the two areas and that's how we look at it.

So generally the reason that our returns are best in class is that we do try to find these investments where there is an arbitrage on the way in and that the purchase prices allow you to make relatively conservative assumptions and the returns will still work. And I think that is very much the case in energy and in Europe where people are out fleeing a little bit because they are seeing some flattening that we had already anticipated.

Michael Carrier - BofA Merrill Lynch - Analyst

Okay thanks a lot.

Operator

Luke Montgomery, Sanford Bernstein.

Luke Montgomery - Sanford C. Bernstein & Company, Inc. - Analyst

Good morning, thanks. I wondered if you guys had any thoughts about CalPERS decision to exit hedge funds and what that means to the appetite for alternative strategies more broadly. I think I appreciate that you guys are in the enviable position of being able to raise more capital than you



can deploy. But just generally do see any dialogue amongst the large asset owners of the private equity injures at risk of becoming overcapitalized and that the returns will be insufficient to compensate the risk? So just with the general sentiment around the asset class with LPs at large

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

You're saying (inaudible) around hedge funds or around private equity?

Luke Montgomery - Sanford C. Bernstein & Company, Inc. - Analyst

No more of read through of the decision to exit hedge funds and what that might mean for private equity.

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

You know I think CalPERS -- it's hard for me to come and on CalPERS specific motivations particularly because they may be a large investor (inaudible).

Relative to other institutions interest in hedge funds, I could continue to think it is a robust asset class. So I don't think the -- I think certainly hedge funds recently -- certain actively managed hedge funds have had tougher returns this year, but I don't really see a big movement out of hedge funds relative to our investors.

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

Yes and I would just add I think based on the statements that they made and again I don't want to necessarily speak for them, but I think there was a view that the hedge fund asset class for them was high fees and returns that did not meet expectations. That was specific to the hedge fund investments, I think clearly as you look broadly across alternative and look at private equity and credit the return certainly in Apollo have been very strong and have delivered what has been offered up to investors in terms of investment terms.

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

The hedge fund is also -- it's a broad category so it comes out -- long-short equity hedge funds have been particularly hard-hit in this last year because many of them bet against federal reserve policy and felt interest rates are going to go up and lost. So therefore that particular category, I haven't looked at the math, but I would be shocked if there was some decline in that category.

When you say hedge funds, when you broadly define the credit including credit mandates and credit hedge funds and so forth, again that's been growing a lot. And so you know you have to also -- as I sense from your comment is that you were talking about long-short equity type hedge funds. And we don't really do that it, it has no effect on us.

If you want to broadly define some of our credit businesses hedge fund that part of our business is growing about as fast as anything in our business. So you also have to be careful with a little bit with the nomenclature of how you're describing it.

Luke Montgomery - Sanford C. Bernstein & Company, Inc. - Analyst

Okay, fair enough. I share the frustration with a focus on market to market over quarter but I'm going to take a stab at this anyways. I wondered if you could just talk about what your general approach is to calculating the performance on the privately held positions, what the weights on the inputs? I'm just trying to develop a sense of the potential volatility of that piece versus the public piece and if there's any systematic way to think about it.



Martin Kelly - Apollo Global Management LLC - CFO

Sure so every company is different. We have a pretty robust evaluation process that assesses each company individually and comps it to inputs that are relative to that sector. So there's not a single set of inputs we use it really depends on the industry vertical, the maturity of the company and how close it might be to an exit.

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

But there's a systematic -- just to hit your point there's a really systematic process of valuing private investments that we try to make every robust and very consistent. I don't know if you want to comment on that, Martin.

Martin Kelly - Apollo Global Management LLC - CFO

Yes, we have a set of valuation committees that cascade up or down from asset class up into a broad committee. And we really -- to decompose all of our assets down into groups to focus on attributes that are around for that asset class. And so we use all available evidence that we can -- available to us by the inside and outside the firm to help guide that valuation process.

Luke Montgomery - Sanford C. Bernstein & Company, Inc. - Analyst

Okay thanks.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - Goldman Sachs - Analyst

Great, thanks related to that, Josh can you maybe comment -- I may have missed this, but on the private equity private company performance just operating performance. Maybe how much of what you've seen in the environment is a little bit more market than sort of what is going on fundamentally with the portfolio?

Martin Kelly - Apollo Global Management LLC - CFO

Yes so let me start with that. So we look at the performance in our portfolio on a rolling 12-month basis. On both the revenue and an EBITDA basis. So we look at year-over-year and then quarter-over-quarter and the underlying performance is strong in all four.

The revenue in EBITDA terms in both those time periods. So quarter-over-quarter, Q3 to Q2 on a 12-month rolling basis revenue and EBITDA are both up between 2% to 3%. And then on a year-over-year basis similar 12-month rolling there are -- so between 5% to 6%. Revenue is growing, EBITDA is growing up more with cost management so the underlying fundamentals across the board are really quite healthy.

Marc Irizarry - Goldman Sachs - Analyst

Okay and then just getting back to the volatility in the market and then your ability of deploying capital. Particularly I'm interested in some of the credit strategies and just thinking about the locked in -- the longer (inaudible) of capital versus the liquid capital and your ability to sort of capitalize on volatility and credit. Obviously things can snapback and have been snapping back pretty quickly.

Josh, any view on having a real -- having more flexible or nimble capital and creditors and is that an advantage for you to put capital out as things move pretty quickly?

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

Yes so that's a huge advantage and we have a lot of liquidity. And you know again during the 3 or 4 week period between the end of September and mid-October, we did see a pull back in certain sectors particularly, which I mentioned, and we put a bunch of money to work. And so from our point of view it had to pull back more, we would have put more money to work.

And what we're seeing is that because the dealers don't have as much capital up in terms of trading books, we're seeing the prices of securities gap a bit more when they're selling pressures. So things gapped down -- in certain cases 10, 15, to 20 points, bought a bunch and then they gapped back up so there is less liquidity in the marketplace either way. But I think it is fine.

I think there's people out there with a lot of capital like us that are sitting there waiting for these opportunities and I think that that's how it worked. So I think that's a huge advantage. We do look over a much longer time period and try to take advantage of the volatility when it comes.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Gary, you mentioned -- via credit SMA. I'm just curious if there's any visibility at all into pipeline of what those mandates could look like going forward. Thanks.

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

Right now there's a lot of conversation and a lot of interest because what's happening is that the large institutions -- again, I'm looking at their fixed income portfolios and saying wow I'm making 3% or 4%. And I'm not being paid for the risk and the duration that I'm being taking relative to the fixed income markets which are being priced off of governments and treasuries which are -- continue to be in overvalued.

So people are getting worried about the duration and the interest rate that they're earning on that portfolio and they're looking for other alternatives. And so, as you know, the fixed-income bucket is a lot larger than the alternatives bucket in the pension system and so when people decide to look at that you're talking about cutting off a half a billion dollar chunks plus or minus which can move the needle. And many of these institutions decide they don't want to necessarily [incurring] all the funds.

And so there is a lot of -- there are a lot of people setting these things up to get ready for what they see as a rising interest rate environment over time. So there's a lot of interest in that area.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay great thanks.

Operator

Bulent Ozcan, RBC.



Bulent Ozcan - RBC Capital Markets - Analyst

Just a quick question -- just to go back on the two valuations. I'm not sure if you disclosed that. But could you give us the mark on your nonprofit portfolio companies what it was in the September quarter?

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

No, Bulent, we don't disclose at that level of detail.

Bulent Ozcan - RBC Capital Markets - Analyst

You don't? Okay, and in terms of the EBITDA growth you've given us from a rolling 12-month basis. But could you give us the EBITDA growth on a basis sequentially for your portfolio companies?

Martin Kelly - Apollo Global Management LLC - CFO

I did. So I gave two statistics one was -- it's all LTM (inaudible) 12 months -- rolling 12 months because that takes out the seasonality. And so we provided rolling 12 months Q3 versus Q2 and rolling 12 months Q3 this year versus Q3 last year. So, those numbers I mentioned were for both those time frames.

Bulent Ozcan - RBC Capital Markets - Analyst

Okay, great. So you don't look at it -- basis sequentially on a quarter-to-quarter basis.

Martin Kelly - Apollo Global Management LLC - CFO

We don't because some of the companies have seasonal attributes to their sales profiles. So, it is best looked at on a LTM basis.

Bulent Ozcan - RBC Capital Markets - Analyst

It makes sense and then a quick question and I'm not sure if you can comment on it or not. But on the recent acquisition of the insurance companies and the European insurance companies in Italy, should we think about that as an investment by PE funds into portfolio companies? Or are there certain synergies that can be realized in terms of distribution just having a fee and these two companies combine the operations?

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

Yes, that's investment in our private equity fund. So just a investment in our private equity fund and it -- again, driven by the need for many many banks in Europe to deleverage and free up capital and so we were able to take advantage of that in terms of buying that at a very good price. And so there's no risk, we're not looking at synergies across the portfolio on that one.

Bulent Ozcan - RBC Capital Markets - Analyst

Yes and given, like I said, on the recent stress test results out of all Europe and (inaudible) out of Italy are you seeing an increase? Or basically in the pipeline or are conversations happening more frequently (inaudible) transactions or potential transactions?

Joshua Harris - Apollo Global Management LLC - Co-Founder & Senior Managing Director

Yes, we are and obviously if you look at two of the deals -- if you look at the deals we are announcing right there in energy or financial services in Europe and so you know there's generally in overpriced environment and it's not by accident. That's because there's a lot of pressure in Europe and all the stress being the latest thing but it's been going on even before that.

For people to -- for the banks to get smaller and then in the energy sector there's a lot of opportunity here in North America relative to the shale phenomenon and the significant reduction in the cost of creating reserves here. Relative to global pricing.

And so these types of sort of macro pictures that create excess selling or excess capital need is driving pricing down in these types of sectors to points where we can actually make good money and that's why we're focusing on the sectors in an otherwise overvalued PE environment. The PE environment is not cheap.

It's actually very very high and so I look at all of this is a manager of our PE business and I think we're doing a pretty good job of getting money out in good investments in a difficult environment. By focusing on these types of opportunities.

Bulent Ozcan - RBC Capital Markets - Analyst

Thanks, that makes sense. I appreciate that. Thanks for taking my questions.

Operator

Thank you. At this time there are no further questions in the queue, I would like to turn the call back over to Gary Stein for any closing remarks.

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

Thanks operator, thanks everyone for joining us today, obviously if you have any other questions please feel free to follow up with either Noah Gunn or myself. And again hopefully you will all be able to join us for investor day on December 11.

Operator

Thank you this does conclude today's conference call you may now disconnect.

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