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APO - Q1 2012 Apollo Global Management, LLC Earnings Conference Call

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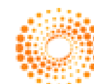

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PRESENTATION

Operator

Good morning, and welcome to Apollo Global Management First 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 call will be opened for questions. This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

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

Thanks, operator. And welcome, everyone. Joining me today from Apollo Global Management are Marc Spilker, President; and Genealogy Donnelly, Chief Financial Officer. Earlier this morning Apollo reported GAAP net income per basic and diluted Class A share of $0.66 for the first quarter ended March 31, 2012, compared to $0.33 per share for the first quarter ended March 31, 2011.

For our combined segment results we also reported non-GAAP after tax economic net income of $1.10 per share for the first quarter of 2012 compared to $0.99 for the first quarter ended March 31, 2011. Total assets under management, or AUM, was $86 billion as of the end of March and fee-generated AUM was $60 billion.

Following the recent closing of the Stone Tower acquisition in April, our total AUM on a pro forma basis is now $105 billion which represents a 50% increase in total AUM since our initial public offering last year. Furthermore, subsequent to the acquisition of Stone Tower, Capital Markets is now Apollo's largest business segment with over $55 billion of assets under management.

We declared a cash distribution of $0.25 per share for the first quarter of 2012 which comprises $0.07 regular distribution and $0.18 attributable to the realizations from portfolio companies and credit investment dispositions as well as interest in dividend income earned by our private equity and capital markets funds.

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 do not 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 after-tax economic debt income per share, which are reconciled to our GAAP net income or loss attributable to Class A shareholders and GAAP weighted average Class A shares outstanding.

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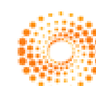

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These reconciliations are included in our first quarter earnings press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. Please also refer to our most recent Form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to out 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 the release or on this call, please feel free to follow up with Patrick Parmentier or me after this call. With that, I'd like to turn the call over to Marc Spilker, President of Apollo Global Management.

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

Thanks, Gary. And welcome again, everyone, to our 2012 First Quarter Earnings Call. We are very pleased with our financial results this quarter on top of many other meaningful accomplishments that we will be covering on this call.

This morning I would like to touch on a few topics including our current views on the market environment, completion of the Stone Tower acquisition, updates on the private equity capital markets and real estate businesses, fund raising, and lastly, a topic that has gotten some attention recently for managing partners' employment agreements.

During the first quarter the equity and credit markets performed well, although recent activity in the US including GDP employment figures are leading to a reassessment of the strength of the ongoing recovery. We are seeing similar sentiment in Europe and while the ECB's liquidity operation has provided some stability, structural issues within the European Union continue to weigh on global market uncertainty.

Elections in both the United States and Europe have added to this uncertainty. We believe that we are operating in a volatile range-bound economic environment with an upper trajectory, but there's always a risk that markets could deteriorate if we have persistent negative economic data or there are unforeseen events. We continue to believe that our globally-integrated investment platform has the flexibility to adapt quickly to capitalize on these market conditions just as we had demonstrated many times throughout our 22-year history.

Clearly, if markets behave the way they did in the first quarter it will benefit the realization cycle, and if markets worsen we are well positioned to deploy additional capital. In the current environment we are finding opportunities to do both.

During the last 12 months, when equity and credit markets fluctuated we've put capital to work at a consistent pace while also realizing [carry] that we've been able to distribute to our shareholders. Over this period we've declared $1.15 in combined quarterly distributions demonstrating the ability to generate both realized carry and earnings from our management business.

While significant monetization from the sale portfolio companies and large credit positions can be more sporadic, the equity and credit positions in both the private equity and capital markets funds that we manage, have provided a consistent stream of interest and dividend income that we are also able to convert into a meaningful portion of the realized carry that's passed on to shareholders.

Later on in the call, I'll touch on more specifics around recent monetization and capital deployment activity. In early April, we announced the completion of the acquisition of Stone Tower Capital, a leading alternative credit manager with approximately $19 billion of assets under management at the end of March.

As Gary mentioned earlier, this brings our total AUM on a pro forma basis to more than $100 billion for the first time in Apollo's 22-year history; a significant milestone that we are very proud of. The acquisition reinforces our positioning as one of the world's leading and most diverse credit managers, adding significant scale and several new credit product capabilities to our platform including high-yield bonds and long/short credit products, in addition to expanded investor base.

Since the April announcement the integration of Stone Tower team is well underway with our capital markets group, and together they are working side-by-side as one business that is now the largest and fastest-growing segment at Apollo, with more than $55 billion of AUM.

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Turning now to our private equity funds and their underlying investments; overall evaluations were up during the first quarter, appreciating on a combined basis of approximately 16%. The overall financial performance of our funds' portfolio companies improved during the first quarter. Aggregate revenues over our Fund VI and Fund VII portfolio companies grew sequentially by an estimated 2% during the first quarter of 2012 compared to the fourth quarter of 2011 while EBITDA increased an estimated 20% on the same sequential basis.

Looking at the trailing 12 months we saw stronger top-line growth and more modest bottom-line growth with aggregate portfolio revenues up by an estimated 9% and EBITDA up by an estimated 3% for the trailing 12 months ended March 2012 compared to the same period as of March 2011.

Fund VI generated some realized carry during this quarter as of March 31st, and it was delivering a 10% gross and 9% net IRR since its inception in 2006. The total sale value of Fund VI investment portfolio was $10.8 billion as of the end of March, up 16% from $9.3 billion at the end of 2011. I want to highlight this performance considering that Fund VI is a vintage fund that deployed the majority of its capital in 2006 and 2007 before the ensuing financial crisis.

Gene will provide more specific details surrounding Fund VI impact to our first call -- first quarter results later in the call. At the end of the quarter fund VII was generating a 35% gross and 25% net annual IRR since its inception in 2008. Total sale value of Fund VII investment portfolio was $12.1 billion as of March 31, 2012, up from $9.8 billion at the end of 2011.

Moving on to realization activity within private equity. Our private equity funds continue to selectively monetize gains. As mentioned in my opening remarks, the current environment appears to be confirming the view that we are facing an uneven economic recovery, yet we've been able to demonstrate the ability to realize carry during the last 12 months while equity and credit markets fluctuated more broadly.

During the first quarter of 2012, Fund VI sold a portion of its Miranda investment and fund VI and VII were able to sell certain credit investments. Looking ahead, the realization cycle remains a focus for our deal teams, and barring any significant changes in the economic environment or sentiment, we are cautiously optimistic for the remainder of 2012 and beyond.

One of other monetization tools that we've been able to use in the current environment is dividend recaps and other forms of capital structure optimization. For example, tomorrow we expect to complete a dividend recapitalization for EVERTEC, one of our Fund VII portfolio company investments that was acquired in 2010.

Six portfolio companies and funds we manage now have registration statements on file for possible future IPOs. In addition, two of our larger portfolio companies Caesars and Rexnord successfully completed IPOs this year. Our funds did not sell shares in these IPOs, however, both of these offerings have subsequently traded well in the secondary market.

Finally, dialogue with strategic buyers also continue and we believe the current environment is healthy for those types of transactions, since many strategic buyers continue to have large amounts of cash on the balance sheet. Furthermore, the acquisition of an efficiently-managed target company can provide a strategic buyer with additional growth catalyst in a market environment where growth can otherwise be inherently slow.

Regarding capital deployment within private equity, consistent with our value-oriented contrarian approach, we continue to find differentiated investment opportunities, and our funds have put capital to work at a consistent pace over the past few quarters. During the first quarter Fund VII invested approximately $1 billion including $450 million for the Taminco acquisition and over $500 million in several potential distressed opportunities.

Funds managed by Apollo and a group of investors call including, Riverstone Holdings, and Access Industries previously announced an agreement to purchase the oil and gas exploration and production assets of El Paso Corporation for just over $7 billion. Both Fund VII and our natural resources fund are participating in this sizeable transaction which is subject to the closing in the merger between Kinder Morgan and El Paso and other customary closing conditions.

In connection with the merger condition, Kinder Morgan recently announced its transaction with El Paso was approved for the Federal Trade Commission, which we expect will clear the way for an anticipated second-quarter closing.

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Looking now to our capital markets business. We believe that Europe remains an area full of long-term investment opportunities and a big focus four our capital markets team, where we are continuing to expand our investment capabilities and grow our presence on the ground. Our primary European mezzanine credit and nonperforming loan funds continue to generate strong risk-adjusted returns since their inception.

Recent mandates form two strategic investment accounts totaling over $1 billion are also beginning to deploy capital in European credit investment opportunities. Our first year European nonperforming loan fund which we refer to as EPF-1 continues to make new investments, and during the first quarter of 2012 EPF-1 announced the acquisition of the Irish Consumer Credit Card portfolio of Bank of America Europe Card Services, which includes more than 200,000 customer accounts.

Following the acquisition of this business, EPF-1 will have investments in consumer loan servicing platforms in Ireland, Spain, Germany and Luxemburg with approximately 700 employees. We believe that this is an important long-term competitive advantage in the nonperforming loan business where we've had an established presence investing since 2008 and see meaningful growth potential from where we are today.

Historically, traditional bank loans in Europe comprise a much larger percent of total corporate lending relative to the United States. However, given de-leveraging, current loan activity in Europe has slowed materially in order to show our bank balance sheets.

Apollo was able to act as a solution provider in two distinct ways. Additional supply for loan demand via our European Credit fund, and other pools of capital such as managed accounts, and purchasing non-core assets from banks via our nonperforming loan platform, we believe that our advantages in Europe including having a well-established presence in select countries where we are seen as good partners for sellers and believe there is a significant opportunity considering our successful track record for long-dated capital to deploy, and the servicing platforms that continue to be built and, of course, our team.

We believe that the secular changes taking place in Europe are still in the early stages but we are well positioned to capitalize on what we believe is a structural long-term investment opportunity that will take a number of years to play out. Finally, I'd also like to mention that we continue to grow our position as a leading player in the senior's credit markets which is the largest component of our capital markets business.

During the first quarter we issued a new CLO totaling $437 million and following the acquisition of Stone Tower and Gulf Stream we now manage 25 CLOs and one of the largest CLO managers in the United States.

Our real estate segment has -- our real estate segment has more than $8 billion of assets under management as of the end of March, and will remain active in the world through a variety of real estate investment vehicles. For example, during the first quarter our US Real Estate Opportunity Fund completed the acquisition of the Novotel New York Times Square hotel in portfolio with Chartres Lodging Group.

Our debt oriented Real Estate Fund and investment vehicles continue to target real estate-relate loans and securities in the United States including opportunities in mezzanine loans and both commercial and residential mortgage-backed securities.

We are also actively deploying capital from our strategic investment account into debt-oriented real estate investments. During the first quarter we also deployed capital in Europe in connection with our partnership with Ivanhoe Cambridge and residential land, where we are targeting the one and multifamily residential market, and through which we've recently acquired four high-quality prime London assets.

Turning to fundraising, we are pleased at the level of capital that has been raised thus far this year, across all of our business segments. During the first quarter following our recent $3 billion Texas Teachers' Mandate, we finalized in other strategic partnership for $600 million with a large city pension fund. This is a global credit mandate and we believe a further testament to Apollo's position as a leading global manager of alternative credit at a highly-diversified product suite.

Looking at funds that are currently in fundraising as of last week, we've closed on approximately $800 million of total investment commitments in our Natural Resource Fund and our second European nonperforming loan fund, EPF-2, has closed on approximately $1.5 billion to date, over $900 million of which was committed to in the second quarter of this year.

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Subsequent to the end of the first quarter, we held the final close for our first US Real Estate Opportunity Fund; or more formerly referred to as AGRE US Real Estate Fund, bringing its total potential commitments to over $700 million.

Finally, I would like to discuss our managing partners' employment agreements that are expiring this July. Apollo is lead, of course, by our managing partners, Leon Black, Josh Harris, and Marc Rowan. We each entered into five-year employment agreements in connection with the private offering transactions that took place in 2007. These agreements were signed at the time of Apollo's reorganization into its currently publicly traded partnership structure.

Leon, Marc and Josh have been, and are completely focused on and engaged in the business and our expectation is that they will continue to be going forward. It is also worth noting that the three of them, collectively, own approximately 55% of Apollo's fully diluted shares, and as we have been saying their interests are aligned with shareholders and their primary focus is to grow long-term shareholder value.

Our dialog has centered around two key topics. First, given their active ongoing involvement with the firm, all employment contracts necessary; and secondly, whether incremental compensation should be considered. Our thought process in addressing this latter point will be guided by two fundamental principles. One is to maintain the strong alignment of interest with shareholders and the second is that any incremental compensation should generally be in the form of restricted equity.

In summary, we are very please with our performance in the first quarter of 2012 and we remain optimistic while navigating the uncertain market environment ahead of us. Apollo continues to identify and execute on opportunities that leverage our existing platform and expand into areas that we believe have meaningful synergies with our core business. With that, I'll turn things over to Gene.

Gene Donnelly - *Apollo Global Management, LLC - CFO*

Good morning, everybody. I'm going to cover five areas before we move to your questions. The five areas are; the quarterly distribution and the related outlook for the balance of the year. The performance of our management and incentive businesses, total AUM and fee-generating AUM, the financial impact of the Stone Power acquisition, and finally, some key amounts from our balance sheet.

Starting with our distribution the $0.25 per share for the first quarter comprises of a $0.07 regular distribution and the remaining $0.18 was largely driven by realized carry from our incentive business. The $0.18 includes approximately $0.10 associated with the recurring portion of our realized carry from interest and dividend income generated during the first quarter and the balance coming from realizations from the sale of equity and debt investments, along with proceeds that had been previously undistributed.

I'd like to repeat the guidance that we provided on our last earnings call as it relates to quarterly distributions. It's 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 expect a base distribution of $0.07 and another $0.05 to $0.10 from the recurring interest on dividend income generated by our funds, and that's based on the current market environment and the composition of our investment portfolio.

Portfolio company sales and other realization events could further benefit or otherwise change our future distributions, and our distributions are subject to our funds meeting their respective priority returns and their ability to distribute carry to Apollo for the terms and conditions of the respective fund agreements. Of course there could be no assurance that any distribution will be paid in future periods.

Looking at our management business we saw improved profitability during the first quarter of 2012 with $35 million of ENI, which compares favorably to ENI of $28 million and $15 million during the prior fourth and first quarters of 2011. The improvement in profitability comes from our continued efforts to scale our existing platform and ongoing cost savings initiatives.

Since our IPO we have continued to demonstrate an ability to effectively leverage our platform with increased management business profitability. Compensation expense in the management business increased from $66 million in the fourth quarter of 2011 to $84 million in the first quarter of 2012, and was impacted by the higher headcount and compensation expenses in our capital market segment.

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There was also $21 million of incentive pool compensation in the first quarter of 2012 that was recorded as profit-sharing expense which was consistent with the $21 million of incentive pool compensation in the fourth quarter of 2011.

As a reminder, amounts determined under our incentive pool arrangement contain both a fixed and discretionary component, and may vary quarter-to-quarter depending upon the overall realized performance of Apollo and the contributions and performance of each participant. Non-compensation expenses were $53 million during the quarter, compared to $65 million during the fourth quarter of 2011, which was largely driven by lower professional fees.

During the fourth quarter of 2011 we also experienced higher legal and consulting expenses including amounts related to nonrecurring events such as the Gulf Stream and Stone Tower transactions. Other incoming, our management business improved slightly which was benefited by approximately $3 million in foreign exchange gains. The US dollar is the functional currency for most of our international locations and strengthening of the euro and pound sterling relative to the US dollar during the first quarter drove the majority of these gains.

I'd like to now turn 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 $448 million of total carried interest income during the first quarter.

Of this amount Fund VI carry includes approximately $90 million of realized carry and $34 million of unrealized carry, which was driven by the combined appreciation of the underlying Fund VI investments and was broad-based across multiple equity and debt holdings, including our investments in [Siebel] logistics, Lyondell, Noranda Aluminum, Norwegian Cruise Lines, Realogy and Rexnord.

For cash-carry purposes Fund VI is slightly above its priority return and it met other fund requirements allowing it to record the $90 million of realized carry. The $34 million of unrealized carry relates to the reduction in the general partner obligation during the first quarter.

As of March 31, 2012, an additional $85 million of fund appreciation, that's less than 1% of the current fair value of Fund VI investments is needed to fully reverse the remaining $41 million general partner obligation, after which we estimate that the next $873 million of appreciation in Fund VI will result in our 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 $25 million of realized carry and $288 million of unrealized carry. After adjusting for purchases and sales, Fund VII appreciated by approximately 15% during the quarter which was driven by investments in Lyondell charter and certain of our distressed credit positions.

The appreciation of both Fund VII and Fund VI was driven, in part, by our significant equity position in Lyondell which appreciated 34% during the first quarter. As of March 31, 2012 Apollo entities held a combined 171 million shares of Lyondell which includes approximately 106 million shares held by Fund VII, 20 million shares held by Fund VI, and the balance held across four of our other funds.

Our capital markets funds generated an additional $184 million of total carried interest income. $36 million of which was realized. Our senior credit funds included our Credit Opportunity Fund, COF I and II, continued to generate the majority of the carry in our capital market segments. COF I and II were formed in 2008 and principally invested in senior secured debt instruments including bank loans and bonds as well as a variety of other public and private debt instruments.

Our incentive business results also include the unrealized gains and losses generated by our balance sheet investments which appreciated during the first quarter resulting in approximately $52 million of additional income. Apollo's total AUM as of March 31, 2012, was $86 billion which excludes $19 billion from the Stone Tower acquisition that closed in April.

During the first quarter of 2012 we added $3 billion of AUM from TRS and $600 million for the new strategic managed account that was discussed earlier. In addition to these amounts there was another $400 million of newly-raised AUM across other capital markets funds and investment vehicles and more than $300 million was raised in our private equity style real estate funds.

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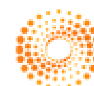

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As of March 31, 2012, there was also approximately $10 billion of AUM related to the Athene Life Reinsurance platform. This amount includes approximately $3 billion of AUM managed directly by Apollo in other capital markets and real estate funds. For the remaining $7 billion we provide asset allocation and related services which includes approximately $1.4 billion of assets under administration that is expected to run off over the next 12 months.

As mentioned earlier, we recently close on an additional $947 million of commitments to EPF-2 which will flow into our AUM during the second quarter, bringing total amounts raised to date for EPF-2 to approximately $1.5 billion through the end of April. It's important to note that in connection with the significant amount of capital recently raised for EPF-2, and based on commitments to date, we expect to incur additional placement fees of approximately $13 million in the second quarter.

A few words on the Stone Tower acquisition which was finalized for total cash consideration of approximately $120 million and future payments that are continued upon whether certain incentive revenue targets on that. As Marc mentioned earlier, the integration of Stone Tower is well underway within our Capital Markets group.

As of March 31, 2012, Stone Tower had approximately $18.7 billion and $16.4 billion of total and fee-generating AUM respectively. Approximately $5.1 billion of fee-generating AUM is expected to run off over the next 12 to 18 months. Stone Tower's weighted average management fee is approximately 50 bps. We anticipate that our management business -- our management business results will be impacted for the remainder of the year by approximately $12 million in one-time integration costs.

However, when you include the incentive business we expect the acquisition to be ultimately accretive to Apollo in both 2012 and beyond. Our management fee revenue as a percentage of average fee-generating AUM is trending lower as we continue to grow in capital markets and in particular add CLO investments to our senior credit portfolio as well as additional assets added to the Athene platform that are not directly managed through other Apollo funds and investment vehicles.

Finally, looking at our balance sheet at the end of March, we had $641 million of cash which is expected to decline in the second quarter by approximately $170 million as we funded the Stone Tower acquisition in our $50 million investment in AINV. Our carried interest receivable increased to $1.4 billion and after all said in the corresponding profit-sharing payables we have a net carried interest receivable of $801 million as of March 31st.

Apollo's investments and its private equity capital markets and real estate funds, were approximately $425 million which excludes consolidated VIEs and AAA. Our debt holdings remain constant at $738 million at the end of March. With that, we will open up your lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Ken Worthington - *JPMorgan - Analyst*

Hi. Good morning. Maybe, first on Fund VI, is it possible to give us a little more information on those contractual requirements that you highlighted in the press release? What are those and how have they affected, I guess, kind of when and how you enter that 80/20 catch up phase, if at all?

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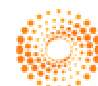

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Gene Donnelly - *Apollo Global Management, LLC - CFO*

Ken, this is Gene; I'm happy to take that up offline. There's a lot of complexity there, but on a very simplified basis, once we cross that 8% threshold, as a general rule, we are in that 80/20 accelerated catch up distribution, so the (inaudible) here and we are happy to take them up offline.

Ken Worthington - *JPMorgan - Analyst*

Okay. I'll follow up after. Then maybe, just moving to Athene; obviously Athene has had great success over the last year. As you look forward, how do you see the potential growth from here and on that $1.4 billion of AUA rolling off, what is the nature of that $1.4 billion, and doest that, you know, does it get replaced? What kind of happens with those dollars?

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

Ken, this is Gary; the $1.4 billion that we referenced during Gene's remarks isn't run-off, it's in administration and it will just -- will run off over the next 12 months, will not necessarily be replaced, and it does, you know, as we are managing under administration through Athene, it does earn, you know, very low -- very low management fee, that you would expect consistent with the administration type services.

Ken Worthington - *JPMorgan - Analyst*

Okay. And then on the, you know, just the broad outlook of Athene going forward, obviously it has had great success over the last year, with a big increase in the fee-earning AUM. How does the growth prospects look there and, you know, it seems like a nice source of growth for you? Does that start to slow down going forward? Is there a reason for it to remain consistent, or I don't know, could it even accelerate from here?

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

Hi, Ken. I would say it's hard to predict where we go, the constraints are obviously -- the capital base associated with Athene and the investment opportunities, and so just tying those two things off of each other, they've built a very nice portfolio and, you know, I guess my sense is that there's growth on a go-forward basis, but it's very hard to predict the size of it.

Ken Worthington - *JPMorgan - Analyst*

Okay. Not to beat a dead horse on Athene, but you don't manage all of the assets. Are there opportunities to actually take -- you know, have more of Athene asset base actually managed by Apollo products, is there a potential growth for APO in that theme over time?

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

The answer is probably yes. At some point there's an upper balance, or how much of the assets we will manage, but it's really about performance and if we perform well, and we make money for Athene, then there's a chance for growth as a percentage of those assets.

Ken Worthington - *JPMorgan - Analyst*

Okay. And then just, maybe lastly, we haven't talked about Fund VIII for a while. Just, what are your thoughts on the future for Fund VIII in terms of, I don't know, it could be way too soon to ask, but just like size, timing of capital raises; just any updated information there? Thanks.

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

Yes. So Fund VIII I'll start with, you'll see the capital deployment going on in Fund VII which puts us on pace to probably launch Fund VIII later this year with a close sometime in '13, and it's far too early to have a sense of any other specifics around Fund VIII, other than you know, when we will launch it.

Ken Worthington - *JPMorgan - Analyst*

Okay. Glad I asked. Thank you very much.

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

Thanks, Ken.

Operator

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

Marc Irizarry - *Goldman Sachs - Analyst*

Hello?

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

We can't hear the question.

Operator

Your line is open, Marc. Mr. Irizarry, if you're on a speaker phone please pick up your handset.

Marc Irizarry - *Goldman Sachs - Analyst*

Can you hear me now?

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

Yes, we can hear you, Marc.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Marc, can you just talk a little bit about where you see the most LP traction these days, you know, and maybe as you think about the -- some of the strategic accounts, you know, what sort of the outlook going forward looks like from that perspective? And also geographically, you know, how you're sort of fairing on building out here geographical dispersion of your LP base.

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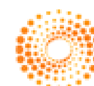

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Marc Spilker - *Apollo Global Management, LLC - President*

Yes. So traction is really what we've been talking about which is natural resources in Europe and so we continue to highlight those as our two largest opportunities, and you could see that both in the dialog with LPs, the funds that we are raising, and growing out our teams. On the strategic accounts we've obviously had a lot of success in the last six or eight months. We started talking about this a year, 18 months ago.

And so, I'll say two things about those, one, is that we continue to see opportunities to enter into partnerships at the strategic level, but where we are now, is having raised a lot of money, very focused on investing it, and investing it well. So I think that piece of that has slowed a little bit, and obviously you see some of the names of the people that we've done it with, and you see some of the sizes and it's hard to imagine that we are at a sustainable pace.

Or my expectation is that we will slow, which is fine, because we want to make sure that we consolidate the money and we manage it well. And then on the LP base, you know, it's rounding out and we certainly have some work to do over the next handful of years of growing our footprint in Europe and Asia, but if you look back, say, five, six years ago, versus where we are now, it was probably 80/20 and it's probably now closer to 60/40, in terms of US versus international.

So I think we've made quite good progress there, and I'd say the good news is that our US business is growing, and our international business is growing, but the international business is growing -- has grown slightly quicker. Okay, great, and then just in terms of the new agreement, with the new [Foundries] Agreement. When -- I might have missed this but, you know, when do you think the -- you know, you'll have something sort of on the table in terms of resolutions.

Gene Donnelly - *Apollo Global Management, LLC - CFO*

Well, I'm just going to refer to what I said which is to really point to, you know, dialogue is obviously underway, but what's more important are the guiding principles, which is to continue the alignment of interest and the -- any additional compensation should it come, would be in the form of equity and I left my opening remarks there, specifically, and so I can't say imminently when -- when I would be able to come back with something.

But I just want to reiterate which I think is the most important point which is, Marc, Josh, and Leo come to the office every day. They're working as they always have been, and that's our expectation and I think that that's, you know, really the most important element.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then, Gene, just on the place -- extra placement fees, you know, you have what looks like, you know, a good amount of AUM that's not currently generating fees. How would you sort of characterize the margin -- the fee-related margin of that AUM? I mean, as you -- you know, as you start to draw down on some of that AUM that s not fee-earning, you know, should we expect to see a little more profitability in the management fee business?

Gene Donnelly - *Apollo Global Management, LLC - CFO*

Well, Marc, as we commented. There's been a downward trend in the revenue yield at the management company on new AUM, and that makes sense, given that's a significant part of the AUM growth has been in capital markets, and the market rates for management fees are lower than our historic averages. As we look at our capital rates for the balance of the year, EPF has a very healthy management fee rate, more like 1.75% management fee.

So as that money starts to come in, we should see a slight up-tick, but that has to be balanced out with the significant growth in AUM that we've realized to date through the Gulf Stream and Stone Tower acquisitions which were largely comprised of CLOs, which as you know have a 35 bps 40 bps average management fee.

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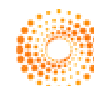

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Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Maybe I could just ask a question in a little bit different way. When you look at the expense base of the business, right now, you know, it looks like some of the line items in [G&A] occupancy, as sort of you know, flattened down somewhat. So is that just a recent -- you know, that you're seeing? Should you see even a little lower fee (inaudible) -- do you see some operating leverage there or some of the fixed costs?

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

I think you are exactly right. You are seeing that, and I commented in my prepared remarks, that we are generating leverage and efficiencies, economies of scale, taking advantage of the plot from when it's been built. I think it's important to note that with the additional capital markets AUM, that's a more complex group of AUM than, say, a large private equity fund, and so the cost to administer, all things being equal, back office, middle office are higher.

So there's been a tremendous successful transition over the last two years in the platform to allow us to leverage on a cost-effective basis, the substantial AUM growth in capital markets given the lower fees.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Thanks.

Operator

Your next question comes from the line of Michael Carrier with Deutsche Bank.

Michael Carrier - *Deutsche Bank - Analyst*

Thanks, guys. Just on the fundraising side. So you've been pretty active both, you know, on the core products and then also on the deal front; but when we look out for the remainder of this year, you know, if we look at Nat. Resources, you know, [and on], real estate, the EPF-2, you know, besides that, anything else on the credit side, I guess you could add more CLOs, but just anything, you know, in addition, you know, to what you've already done?

You know, over the past six to 12 months, because it seems like a lot of the products are -- you know, you've already raised the gap on that and be focused on putting it to work, but just want to make sure I'm not missing anything.

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

Yes. I would frame it as, you know, we have Opportunity Fund and Yield Fund, and what we are undertaking in our capital markets business is to create a platform where we have open for sale products every day, and so when you look at the senior loan business and when you look at the European platform that we are building, you know, the way I've framed Europe, is that it's a long-term, secular opportunity we are trying to build the business where there are going to be many credit opportunities.

And I think that that's a place that we'll have ongoing fundraising potential. And then the Senior Loan business where we are one of the largest in the industry, and as we build out the platform, you know, Gene talked about one side of it. The other side is that we are -- with the acquisitions we've made on our organic build, we are building a pretty diverse platform with a lot of investment capabilities, and there will be many opportunities there.

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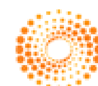

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And then on the real estate debt side, that's another place where we see ongoing opportunities to raise money, particularly in separate account [forum]. So we think there's a healthy mix of the kinds of things we've been talking about with the changing business mix of the organization.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. That's helpful. Then maybe just on the capital markets business, you know, it looks like ENI, is a bit light and so -- and I'm just saying on the -- on the management part of the business, so when you start to scale up, you know, some of those businesses, should we see that expand because it's a little bit, you know, I'd say blurry right now because of the deals, so it's trying to figure out if like costs are a little -- costs are a little bit elevated.

You know, that some of these things are coming in and, you know, just -- if we start looking, you know, over the next couple quarters, should we start to see that management, you know, related ENI; you know, expand as the scale picks up?

Gene Donnelly - *Apollo Global Management, LLC - CFO*

Hi. This is Gene. I think that is a reasonable expectation. When you look at the first quarter you may be aware that we had a substantial restructuring of our private debt platform, the [DDC] (inaudible), and then with some one-time cost that we incurred in the first quarter in connection with that, so I think if you adjust for that, roughly $3 million or $4 million, I think you'll see that there is that positive trajectory, and that should continue for the balance of the year.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. And then, this last one on the distribution and the realization outlook, any commentary is helpful just in terms of a breakdown. But I think when you guys look at your portfolio and you think of, you know, what the options are and you mention, you know, some of the IPOs that have been filed, and then secondary is -- and then just the normal, you know, realizations, you know, from interest and income.

When you look at where your investments are, because the performance has been very strong, like, are you at a point where, you know, you are willing, meaning are the investments getting to a point where you're willing to, you know, make the exits or, you know, is it still a chunk of the portfolio where you feel like you're still, you know, in the seventh inning, you know, where you think the actual potential is?

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

Yes. I'll start by saying the obvious, which is, we will undertake to sell things when we think they're right to be sold, which is the most important thing. Having said that, we continue to say that the deal teams are very, very focused on realizations, both because we see sensible macro conditions and at the idiosyncratic level, there are certain things that we think are ready, and dialogue, so there's lots of activities, and there are some very, very good strategic dialogues.

They are in very, very -- you know, that are very advanced, but that doesn't mean it will get across the lines. Sometimes we get to the advanced stage and it breaks down, and sometimes we get to an advanced stage and it goes through, but there a handful of situations that we are working on, and that's the big focus.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. That's helpful. Thanks, guys.

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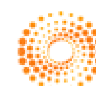

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Operator

Your next question comes from the line of Patrick Davitt with Bank of America Merrill Lynch.

Patrick Davitt - *Bank of America Merrill Lynch - Analyst*

Hi. Good morning, guys.

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

Hi.

Patrick Davitt - *Bank of America Merrill Lynch - Analyst*

So you mentioned the El Paso transaction, you know, moving along. Given the size of committed capital in the Natural Resources Fund is only around $500 million relative to the size of that transaction, I imagine it could take up a fairly significant amount of it, although you know, you did say it's sharing with another fund. So are there -- there are already preparations, I guess, for a successor fund there, if that transaction is going to take up a large slug of that committed capital.

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

You know, the way we think about it is each fund will -- the size of the investment will be altered to what's sensible for that fund, and we have concentration guidance and all that, so natural resources as I've said, we'll be an investor in that, and I won't get into the breakdown now, but just to say it will be a sensible amount relative to the size of where we think that fund will be. And Fund VII, we'll be the larger investor in that.

Patrick Davitt - *Bank of America Merrill Lynch - Analyst*

Okay. And on the real estate side of things, you mentioned the final close in the second quarter. Can you give us an idea of, I guess, the pipeline of transactions you're seeing there, and what kind of check sizes we could be talking about as we think about, I guess, the timeline of putting that fund to work?

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

Well the fund, we said total commitments up to $700 million, and like every fund there will be you know, a sensible amount, per deal amount, and there's been a handful of transactions, and so we are well underway of investing that capital. And it's very hard -- I mean, there's a pipeline that's looks interesting, but it's very hard to know what we'll get across the line.

Patrick Davitt - *Bank of America Merrill Lynch - Analyst*

Yes. Okay. And if I -- I think I remember correctly, that these kind of strategic accounts with people like [TRS] are included in total AUM, but only included in fee-paying AUM as put to work. Could you give us an idea of what percentage of those strategic accounts have been invested at this point?

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

Yes. At this point I'd say, for the most part, the capital is still sitting in total AUM and not yet in fee AUM. I'd say the -- we are not going to go through each quarter, you know, how much we've put to work with each specific fund and where it's been deployed, but just to give you the headline numbers. You know, of the $3 billion from TRS, and the $600 million from this other strategic account, instead of the vast majority of that is still un-invested.

We only closed on TRS right before the end of the quarter, and the other account was closed, you know, during the midst of the quarter. So the vast majority of that capital is still available to be put work. And I would say, nearly -- probably nearly $3.5 billion of that.

Patrick Davitt - *Bank of America Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Jacob Troutman with KBW.

Jacob Troutman - *Keefe Bruyette & Woods - Analyst*

Good morning, guys. Thanks for taking my call, or my questions. We appreciate the color on the comp agreement. It's very helpful, but taking it a step further, I'm trying to think about what were total gross distributable earnings for the quarter? And you know, looking forward, how could the comp plan affect that? So the amortization is now in ENI, so I assume that any future insider grants would reduce ENI but not distributable earnings until those options vest? Is that right?

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

Well, again, I think we are jumping ahead here. We do exclude from ENI, the amortization of the 2007 grants, and we include the amortization of all subsequent grants. So bonus grants, et cetera. So I think you have to stay tuned and follow Marc's guidance from his earlier comments and let's see what comes out of the discussions with the founders, before we conclude on the impact on ENI and DNI.

Jacob Troutman - *Keefe Bruyette & Woods - Analyst*

Okay. Just thinking about it, you know, so you paid a $0.25 distribution, you know, on the 385 million shares outstanding, you know, so that's roughly 95 million, 96 million in distributions, do you have any guidance on what the gross amount available to be distributed was?

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

Is the question, what was our DNI?

Jacob Troutman - *Keefe Bruyette & Woods - Analyst*

Or the total gross distributable earnings. So if I think about it, you know, the $0.25 times the -- either $385 million fully diluted shares outstanding, you know, that's about 96 million in distributions paid, does it --

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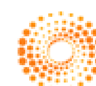

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Marc Spilker - *Apollo Global Management, LLC - President*

Right, right.

Jacob Troutman - *Keefe Bruyette & Woods - Analyst*

What kind of payout ratio does that 96 million represent?

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

Our distribution policy, which I think we've covered multiple times is that we distribute quarterly, substantially all free cash flow, other than what we believe we need to manage the business. So the distribution of $0.25 in the first quarter was consistent with that philosophy. I'd also point out that about $0.05 was earned in prior quarters, but was in escrow in Fund VI, and we covered that in detail on the prior earnings call.

Gene Donnelly - *Apollo Global Management, LLC - CFO*

Yes. And also just one other thing to point out; you mentioned 385 million shares eligible for dividends, but I'll point there's footnote on the bottom of page 21 of our press release that talks about incremental 5.3 million fully -- shares that are not included in that diluted share count that are eligible for dividends. So that share count, that would be dividend eligible as close to that 390 million which, I think, will then change your gross amount by a fair bit.

Jacob Troutman - *Keefe Bruyette & Woods - Analyst*

I see. Okay, guys. That's helpful. Thanks for taking my questions.

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

Thanks.

Operator

Your final question comes from the line of Alex Kramm with UBS.

Alex Kramm - *UBS - Analyst*

Hi. Good morning. Just a couple of follow-ups here, most of the things have been answered, but in terms of L.P. fundraising environment, I think you answered some of those earlier, but you know, since one of your [peers] just went public and talked a lot about the, you know, small funds benefit, I'm just wondering what you are hearing from the LPs when it comes appetite for, maybe, sector funds, or more focused funds? I mean, obviously you have different segments, then Natural Resources, you have some specific funds, but are there any other things that you're thinking about; or, at least the appetite that you're hearing from the LPs?

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

You know, we haven't seen a big -- we haven't seen a big shift. I mean, we see a lot of appetite in places where we have expertise and we have capabilities, so it's less about changing appetite for sectors and other kinds of things, but the ongoing desire for returns, and if your platform has

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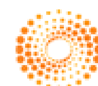

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the ability to deliver those returns, that's driving the dialogue, and given where we see the opportunity, we continue to talk about natural resources, we continue to talk about Europe and there's a lot -- and that's the majority of our dialogue.

We also include opportunity in India, and that's where we see a lot of the dialogue with our LPs and we have not seen a big shift over the past few months in that.

Alex Kramm - *UBS - Analyst*

Okay, great. And then moving on to your own M&A from a [GP] perspective, I don't think you've talked about this at all, so far, on the call, but obviously with Stone Tower and Gulf Stream you've been pretty active since the IPO. Do you still see a pretty healthy pipeline out there, and is it still mostly around credit?

Or are there other platforms that are approaching the same, like, hey, we could really benefit from you guys taking us to the next level? And what do you think the timing could be? Will we see some more in 2012, or what's the appetite?

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

Yes, I'll just state a general principle, which is, you know, we have an ongoing -- we see big opportunities, we believe that we can grow our platform, and we will do so organically, or with acquisitions that make sense.

Acquisition have a high bar, and we've talked about this in the past, which is, it needs to be on strategy, it needs to be financially sensible, and there needs to be a culture that is consistent with the way we do things. And those are the elements that we are really present in, the two acquisitions that we made. Also, as I think, most people could see, that consolidation is happening in the industry, and so there are many, many dialogues all over the place, and we remain open to it.

And then the last -- the last thing I'll say is that we want to get our platform right, we want to integrate our two acquisitions well, and there's a high premium on getting those things well, culturally, and from an expense point of view and from an efficiency point of view. And so we don't want to bite off more than we can chew, and so right now we are very focused on integration. And as we get through that, and then you know, we will see where that goes, and so I don't see anything in the imminent pipeline that could always change.

Alex Kramm - *UBS - Analyst*

Okay, and then just lastly, on the managed accounts you said the pace is probably slowing a little bit here, after the -- you know, the TRS win and the other one you talked about. But can you maybe just step back for a second and just say -- give us a flavor of how big the opportunity really is. I mean, is this really just the really large pension funds and the sovereigns, or do you think that the audience is actually much larger than we could probably see right now. Maybe even to include like larger like retail products, and things like that? Thank you

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

I think the opportunity is much larger and this really speaks to the secular opportunity for Apollo which is the way in which we do private equity, the way in which we do credit, you know, unconstrained alternatives, returns that there's a lot of appetite, institutionally both big and small, and in retail to allocate more capital to those segments.

So we look at our firm and we are quite proud of the gross and we are quite proud of our performance, but we still think of us as small, relative to the overall size of the opportunity given the structural changes that are going on in the credit environment. And so what we want to be very focused on is execution risk of making sure that we are building a platform that in a way that delivers the same kind of returns that we've had historically, and has plenty of room for growth on a go forward basis, and in an efficient way. [And on that we'll end].

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Alex Kramm - *UBS - Analyst*

Okay. Thank you. Thank you very much, everybody.

Operator

Thank you for joining today's conference call. You may now disconnect.

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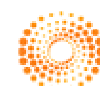

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