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APO - Q3 2011 Apollo Global Management LLC Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to Apollo Global Management Third Quarter 2011 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 up for questions. This conference call is being recorded. I will now like to turn the call over to Gary Stein, Head of Communications.

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

Thanks operator. And welcome everyone to Apollo Global Management, third quarter 2011 earnings conference call. Joining me from Apollo in today's call are Marc Spilker, President and Gene Donnelly, Chief Financial Officer. Earlier this morning, we reported a total economic net loss of \$1.1 billion for the third quarter ended September 30th 2011, which was largely driven by lower unrealized mark to market evaluations within Apollo's private equity and capital market segments.

Total assets under management or AUM were \$65 billion and fee generating AUM was \$50 billion as of the end of September. Apollo also declared a cash distribution of \$0.20 per share for the third quarter of 2011 which comprises a \$0.07 regular distribution and an additional \$0.13 per share quarterly distribution that was primarily driven by realized carried interest income tied to the interest and dividend income earned by our funds.

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I'd like to remind everyone that today's call may include forward looking statements representing managements believes on future events which can be uncertain in nature and outside of our control. Actual results and financial conditions may differ, possibly materially from the anticipated results and financial position indicated in any such forward looking statements. And we do not undertake any obligation to update forward looking statements.

We will also be discussing certain non- GAAP measures on this call such as Economic Net Income or ENI, which is reconciled with GAAP net loss or income attributable to a class A shareholders in our press release. A copy of which is available in the investor relation section of our website at www.agm.com. Please refer to our most recent amended registration statement that was filed with the SEC. Precautionary factors surrounding forward looking statements, additional information on non-GAAP measures and risk factors relating to our business. This conference call is copyright property and may not be duplicated, reproduced or rebroadcast without our concern.

If you have any question about any information in the release or on this call, please feel free to follow up with me or Patrick Parmentier after the call. With that I will like to turn the call over to Mark Spilker, President of Apollo Global Management.

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

Thanks Gary, and welcome to today's call to review our third quarter results. As you know, much has happened in the global financial market, not only in the third quarter but in October as well. During the third quarter we watched sovereign debt issues play under the global economy, including a prolong US debt ceiling debate in July and the downgrading of US debt rating in August 5th and heightening fears in Europe. As a result, the third quarter of 2011 yielded the worst quarterly performance for the S&P500 since the debt of the financial crises. We continue to watch market closely and it clearly remain in a volatile state. To put this in perspective, in the equity market the S&P declined 14% in the third quarter then rose 11% in October. Similarly in the credit market, the S&P/LSTA leverage loan index excelled 5% during the third quarter and in October this same index rose 3%.

We have seen even greater volatility in some of the public security held by our private equity funds. For example LyondellBasell declined by 37% in the third quarter and then rose by 35% in the month of October alone. Metals USA declined by 40% in the third quarter and then rose by 22% in October. With this kind of volatility in the markets on any given day, week, month or year, the unrealized mark to market value of the debt equity position we hold will fluctuate, often quite dramatically.

As Gary mentioned, our economic net loss of \$1.1 billion was largely driven by lower unrealized evaluations. The underlined performance of our portfolio companies is solid based on current revenue and EBITDA metrics that we will discuss shortly. And the unrealized value of our portfolios appreciated in October with the rest of the market.

There are two sides to every coin, and while the volatility of the market cleared a large unrealized loss in the quarter, we are capitalizing on very interesting investment opportunities do deploy our significant dry powder, especially in Europe where we are actively investing. We see significant benefits from our integrated platform in times of market dislocation and volatility we believe we will be able to move quickly to capture opportunities.

Apollo also continued to generate positive cash earnings despite the volatile market environment. Both our management and incentive businesses had quite a positive cash earnings leading to this quarter's \$0.20 distribution. The cash earnings generated by our management business to sustain our investment platform and combine with cash earnings from (inaudible) carry on recurring interest and bidding income from our incentive business. Apollo continues to deal our shareholder value, even during a volatile market environment, with an inherited advantage that longer term capital provide to a business module such as ours.

Although modernization of large investments may be delayed, alternative investment managers like Apollo are not under pressure to sell portfolio holdings. Our longer dated capital over 90% of the funds we manage have a contractual life of sevens along with -- at inception, allow us to deploy capital during times of dislocation or remain patient on selling any of our investment



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until the environment is conducive for doing so. Our 21 year track record as the best in class contrarian value oriented investor, evidence is our successful adherence to this approach.

Now let me focus more closely on our incentive business results. As you probably know, the volatility of our financial results is contained primarily in our incentive business which includes Apollo's share of the profit generating its funds through investments carry and incentive income. Fluctuations in unrealized mark to market investment values runs through our income in each quarter providing a snap shot of where our funds stand at a particular point in time.

Often based upon market sentiments at that time. The \$1.2 billion loss from our incentive business during the third quarter of 2011 was driven by a reversal of previously recorded carry income primarily from our private equity segment. The combined share value of our private equity investments was \$19.1 billion at the end of this quarter which declined by 22% since the end of the second quarter after adjusting for purchases and sales.

Despite this low unrealized valuations, the combined value of these investments are still well above their original cost. Notwithstanding what we are all reading about in the papers and watching in the markets, looking at the third quarter this year versus last year, we estimate that the aggregate revenue of our fund VI and VII portfolio companies, increased 14% while EBITDA grew 17%.

On a sequential basis, comparing third quarter to the second quarter of 2011, we estimate that revenues for our fund's portfolio companies were down very slightly while EBITDA grew modestly, reflecting the continued positive impact of capital structure optimization and cost saving programs that have been implemented.

As you know, we do not typically comment on inter-quarter results however in light of the extreme volatility we have experience during the third quarter, and in October, I want to report that as of October 31st we estimate that our portfolios have recovered approximately 60% of the unrealized decline in share market value and we estimate that our incentive business has recovered approximately 60% of the economic net loss that took place in the third quarter due to the market upswing witnessed in the latter part of October. Later in the call, we will provide details on this estimate.

One final note here, as I said earlier marks will go up and down, sometimes in an extreme manner like what we just saw in the third quarter and in October. And we don't necessarily believe that these marks represent the full value we expect to generate from these investments. We are not in the business of selling our portfolio holdings on a daily basis and we believe that the true test of our performance comes when we fully realize [earnings] on our investments.

I will like to briefly run through our businesses starting with private equity. Although capital deployment slowed down in many businesses during the period of significant market variations, we have -- we continue to find differentiated and proprietary opportunities to deploy our private equity capital around the world while staying true to our core strategy as a value oriented investor.

During the third quarter of 2011, our private equity business deployed \$757 million of capital in both equity and debt investments, including new investments in two natural resource companies. Welspun and Avalon. Welspun an Indian based company is one of the world's leading pipeline manufactures while Avalon is a portfolio company of Apollo's that has been established to serve as a continuation of our West Texas proven reserved acquisition strategy. We've also ramped up our activity barring the debt of good companies with challenged balance sheets and believe this will be fertile ground in the near term.

As you recall, we deployed significant capital during the global financial crises in distressed opportunity and our private equity team is oriented towards the credit market in nine core industries that are well known to Apollo.

Turning to realizations. During the third quarter, we announced the sale of connections education investment from fund IV and Lyondell recently announced its intend to pay special dividend of \$4.50 per share which is subject to the successful completion of its debt tender and amendment. In addition, yesterday Noranda Aluminum announced the initiation of a regular quarterly

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cash dividend and also declared a supplemental cash dividend. Gene will provide additional details on these realization events. Clearly with the market volatility, our IPO pipeline and realization timeline could be extended, but we will continue to look to maximize long term value for our limited partners while driving cash distributions for our shareholders. Cooperation's globally retained unprecedented levels of cash on their balance sheet. So we are not yet depending on the public market for exits and realizations.

Moving on to capital markets AUM was \$22.4 billion as of September 30th. This amount those not yet include the recently enclosed acquisition of Gulf Stream as a management which occurred in early October. Gulf Stream is a CLO manager with ten CLOs and over \$3 billion of AUM and the acquisition leverage of Apollo is existing senior loan platform and further strengthens our position as a leading global manager of loans and provides us with access to large group of institutional [assets] that our neutral Apollo's integrated platform.

Our capital market segment had an economic loss for the third quarter of 2011 which was driven by unrealized carrier losses. Similar to our discussion around private equity, the recovery of the fixed income markets during October had a positive impact on our capital market business during the first month of the quarter. As we have been highlighting, we continue to identify actionable opportunities to by a diverse array of assets from European banks. Our non performing loan EPF and our European [less] fund AIE II together deployed over \$300 million in European credit related investment during the third quarter. We continue to see many investment opportunities in European non performing loan space and we believe that our successful track record coupled with our servicing infrastructure and positioning as a strategic solution provider and partner, we have as well suited for continued growth in this market place.

I'd like to provide an update on sum of our fundraising initiatives. Last quarter I mentioned our on-going dialogue with and continued momentum we are gaining with some of our largest institutional investors to establish additional strategic account. I am pleased to note that during this third quarter, we closed \$500 million strategic account with a large sovereign wealth fund to access Apollo's European platform. In addition, we have a number of dialogues and others underway with leading global pension and sovereign wealth funds regarding a variety of strategic accounts and I hope to provide you with further updates as we continue to make progress in this important area. The recent market volatility has propelled these dialogues forward with more momentum as our investors clearly see the need for a solution provider such as Apollo.

Historical asset allocation modules are being revamped around the world and we believe Apollo will capture market share as investors seek new ways to flexibly and dynamically deploy capital to meet the return objective in this low interest rate and volatile market environment.

Moving beyond strategic account, in the third quarter we has a \$300 million first closing on our natural resources fund and we successfully completed the initial public offering of Apollo residential mortgage which raised gross proceeds of \$200 million.

In summary, we believe that our business module which is predicated on a long related capital that we manage allows us to endure periods of great market volatility while still delivering on realizations for our shareholders. Markets go up and down as well our reported quarterly unrealized results. But our underlined portfolio companies are performing well, we are deploying capital where we feel are attractive investment opportunities and we have momentum with our investor base in raising assets across our integrated global platform. With that I'd like to turn things over to Gene.

Gene Donnelly - Apollo Global Management LLC - CFO

Thanks Marc and good morning everybody. As Gary and Marc described, we had a significant ENI loss during the quarter driving by the performance of our incentive business. As you may have already seen in our press release, we have provided significant transparency into the performance of our underlined funds. Our disclosure includes the unrealized carried interest loss for each of the private equity funds as well as for each funds strategy in our capital markets business. We have also disclosed the fair

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value of investments needed to cross -- I am sorry, we have also disclosed the increase in the fair value of investments needed to cross to carry interest in comp threshold for fund VI, COF II and SOMA.

Gary or Marc described the significance volatility in the equity and credit markets which has certainly been experienced at Apollo. Our incentive business generated and the NI loss of approximately \$1.2 billion during the quarter. This CNI loss was triggered by an approximate \$8 billion decline in the unrealized value in the investment of the in our underlined funds. This decline actually grew in the early part of October before reversing considerably by month end.

I'd like to emphasize a point that Marc made during his comments. Markets are adherently volatile which can have a significant impact on the unrealized values in our incentive business. And we don't necessarily believe that this snapshot point in time values represent the full value we would expect to generate upon our eventual exit from this investments. Given the significant market volatility, which has occurred over the past few months, we've estimated the impact of the movement in public marks on our portfolio as of October 31st.

This is an estimate that does not reflect the normal rigor of our evaluation process. It simply reflects the change in public marks from September 30th to October 31st, without changing the underline evaluation methodologies. By definition, this estimate does not include any impact for underline investments not determined by reference to public marks. We estimate -- let me reiterate -- estimate that the investment in our underlined funds valued at September 30th is referenced to public marks.

We covered approximately 60% of the third quarter decline and the fair value -- in their fair value during the month of October. Said differently, based on public marks and using the same evaluation method employed at September 30th for our other investment, we estimate that the incentive business CNI loss of approximately \$1.2 billion in the third quarter has been approximately 50% recovered. The difference in the estimated recovery of value in the underlined investment I just described versus the estimated recovery in the incentive business CNI is attributable to the recovery value in fund VI investments. Which in large parts went towards the preferred return?

It's also worth noting once again that the underlined portfolio companies of our private equity funds experience year on year quarterly growth in revenue and EBITDA 14% and 17% respectively. We declared a 20% per share distribution for the quarter, including \$0.13 per share from the performance from our incentive business. Further, the sale of connections education was completed this week and both Lyondell and Noranda have announced their intention to pay special dividends during the fourth quarter as well. If realized, we expect these three transactions will result in \$127 million of realized carried interest income, net of profit sharing.

In summary, while our ENI has been volatile, our underlined portfolio companies are continuing to perform above their prior years and distributions are strong. At September 30th fund VI is valued at approximately \$1.6 billion below its preferred return level. As we look ahead, should fund VI investments appreciate by approximately 18% from their September 30th values, this fund will begin earning an accelerated catch up of carried interest income, similar to what we experienced during the fourth quarter of last year.

Our management business generally performed as expected during the quarter, generating an ENI of \$22 million. Compared to the prior quarter, this represents a decline of \$63 million. However, after adjusting for \$40 million gain, related to insurance proceeds last year, and an \$8 million related to clause associated with the laws of Apollo residential mortgage, our newest permanent capital vehicle, any impact of foreign exchange movements totaling \$11 million dollar difference between the two periods. The period over period change is at a decline of \$4 million. This decline is largely the results of incremental occupancy expenses as we continue to build out our global platform, our decline in transaction fees given the capital deployment levels and private equity and a slight uptick in replacement fees.

Let me briefly describe the decline in AUM for the three months ended September 30th. First, we had unrealized investment losses of \$8.3 billion and we returned \$671 million to our limited partners. We also experienced subscriptions of \$2.3 billion

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including \$1.4 billion of AUM that was acquired by a thin of Portfolio Company of one of our funds during this quarter. And all of these subscriptions are fee pay.

Lastly, redemptions during the quarter totaled just \$156 million. Briefly looking at our balance sheet as of the end of September, we had \$808 million of cash and our current interest receivable decline to \$635 million in connection with the unrealized carried loss. Although we did also collect \$64 million of carry during the third quarter primarily due to realized carrying income related to the interest and dividend income generated by our funds. Also on our balance sheet are Apollo's investments and its funds, which are currently valued at approximately \$254 million and year to date through September 30th. These investments have generated \$47 million of cash that came back to Apollo and we re-invested \$41 million back into our funds over that same period.

On the other side of our balance sheet, our profit sharing liability is down considerably from \$837 million at the end of June to \$285 million at the end of September. Also due to the unrealized losses previously discussed. We also had \$739 million of debt which is consistent with the previous quarter. As Marc mentioned earlier, we completed the Gulf Stream acquisition for total consideration of approximately \$34 million and we estimate that the acquisition of Gulf Stream will be accreted to Apollo in 2012.

In closing, let me address our distributions. I'd like to remind everyone again as to how we think about the components of our quarterly distribution. In general, our distribution can be broken down into a number of income streams. Management advisory and transaction fee profitability, interesting come from our portfolio of debt investments, realization from the sale of portfolio holdings and dividends from our publicly held equity securities. As we've mentioned, we declared a 20% per share distribution for the third quarter. Some of the prior quarter this distribution comprises a regular \$0.07 per share distribution that's primarily associated with our management business earnings and \$0.13 per share from interesting common dividends from debt and equity investments held by certain of our funds.

Looking ahead to the fourth quarter, there is one actual and two potential realization events that we would discuss that I'd like to highlight again. One of the private equity funds we manage fund IV finalize a sale of a portfolio company connections education. The sale of connections education by funds IV was consummated earlier this week and generated over \$46 million of realized carried interest income net of profit sharing which will be recognized by Apollo during the quarter ended December 31st. There is also a prospect of additional carried interest income from this transaction over the next one to two years following post closing settlements. Lyondell also recently announced its intention to declare a special dividend of \$4.50 per share that is anticipated to be paid to our funds prior to the end of 2011 subject to the completion of a debt tender and amendment. If Lyondell was successful with its debt tender and amendment process and pays the intended dividend based on our significant holdings, this represents an estimated potential growth dividend in excess of \$700 million to certain of our funds and realized carried interest income of \$76 million net of profit share.

Lastly, just yesterday Noranda Aluminum of funds VI portfolio company initiated a regular quarterly cash dividend and also declared a supplemental cash dividend of \$1 per share that will be received by funds VI later this month. This dividend is expected to generate approximately \$5 million of realized carried interest rate net of profit sharing to Apollo.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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Howard Chen - *Credit Suisse - Analyst*

Hi, good morning everyone.

Unidentified Company Representative

Hi, good morning Howard

Howard Chen - *Credit Suisse - Analyst*

You are putting out a lot in the market as you noted Mark, for deployment it's pretty favorable, it looks like relative to your overall level of commitment that you might be getting a bit low on head room here so I am just curious, how does that -- you know, maybe a adjust or shape you thinking on the timing and size of fund date?

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

Fund date is often the future, you know, just in terms of looking at the market, the firm is always very very disciplined about allocating capital when we see opportunities, we have significant dry powder and as you can see, fundraising is moving forward and so as opportunities come up, we will just play powder and hope to raise new funds as many of our LP clients see what we see, which is opportunities to per capital market to work in this market.

Howard Chen - *Credit Suisse - Analyst*

Okay, thanks. And Mark, on the revenue and EBITDA figures that you noted you know, it's very helpful and interesting but maybe could you bifurcate the performance by industrial versus consumer? Are you still seeing the former a bit stronger than the latter?

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

I will say yes. The trend that we've been talking about the last bunch of quarter is pretty much intact, were industrial companies continues to outperform consumer companies, but I will say relative to the sentiment, the consumer company still seem to be doing better than what the sentiment will imply.

Howard Chen - *Credit Suisse - Analyst*

Great, thanks. And finally from us, just congratulations on the strategic account mandate. Clearly something that you all have been kind of talking about, so you know obviously helps for more permanent capital vehicles but can you just give a scent of how maybe fee rates and [amend it] like that compare with what we are normally used to seeing? Thanks

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

Thanks for that Howard, I will say -- let me give you the same answer I always give you on [sheets], which is that they are highly customized and each one of these things is very very different and we believe ultimately very accretive to our LPs and very and accretive and it depends on the duration of it, it depends on the flexibility of it and so as we said for large long locked up capital, that in the end that it will be discount on fees but you know, it has to be differentiated and all customized.

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Howard Chen - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Your next question comes from the line of Roger Freeman of Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Hi, good morning, I guess this -- on the strategic account for the -- you know, we can comment on this one or more generally the way the discussion is going. There is different flavors of these -- sounds like where the capital is -- you receive all the capital at once, maybe you've got discretion or earmarked specific strategies or it's draw down. Any comment on this one? But then more generally, what -- kind of (inaudible) in terms of structure?

Unidentified Company Representative

Yes you know, we have a bunch in place and again they are all in different shapes and sizes. The particular one in the quarter was very focused on the platform in Europe and so that was specific to that and as you -- I have been saying quarter to quarter that the dialogue continue to be strong and some of the dialogues around global Apollo platform with lots of discretion and there are increasing dialogues about Europe with discretion limited to certain asset classes and so what we are trying to do was much our strengths with the needs of our LPs but again the -- you know, primarily the value is that, as opportunities move around the world LPs want us to access it and that's the value of generally giving us discretion but I will say in the last three to six months they has obviously been an increase in focus on Europe for the obvious reasons.

Roger Freeman - *Barclays Capital - Analyst*

Alright, and then you know, you've been talking a while about the pension fund opportunity and how these traditional asset allocation has maybe been -- you know, not tossed out the window but redefined a bit in terms of what constitute credit and I assume that source hear and a strategic -- [I'm sorry] but with another year of not so great returns in liquid assets do you think we will get close -- we will get to a breaking point or some point when we will really start to see these mandates come in or is it a gradual shift in your view?

Unidentified Company Representative

I think it's a gradual shift and I also think the number of institutions that will ultimately want to do very larger strategic account is limited and I don't know whether the return on 20 or 30 or 40 accounts in the world and so I do think that there are two teams. On the one hand, very large LPs for all the obvious reasons are looking to do (inaudible) accounts and then to your question, which is this issue of credit as in asset allocation -- as part of the strategic asset allocation and we have started to see that for sure and that is something that is going to move very slowly. Where pension plans are looking to allocate money to, credit is moving slowly and a healthy dose of what is going in -- I think will go into some of this managed accounts will be credit.

Roger Freeman - *Barclays Capital - Analyst*

Okay, and just lastly, I just -- kind of more conceptional in terms of you know, your business structure and your [segmenting] as a management business and incentive business. If we -- you made significant amount of this back in terms of the carried dollars coming back but to the extent that there is you know, real short fall mainly with realization, is where this will show up.

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Where -- you -- there could be comp pressure in the management fee business to cover [complex] vacations that couldn't be met because of underperformance in incentive business?

Unidentified Company Representative

I think it's a good question and one of the things that we've always said about the firm is that the tenure of our professional is -- people have really been here for a long time and the cycles and their cycles and of course we all know everybody wants to make more, not less. I think the people that are managing the money understand that sometimes it takes a long time to make this realizations and it's happened in the past, and so obviously it's something that we think about. I think that the incentives of our investment professionals are totally aligned with our LPs and our shareholders and that the value that we had produced over the long period of the firm has been by being patient, which is a core discipline as a conferring and value oriented investor and so I think that we are in a good shape there.

Roger Freeman - Barclays Capital - Analyst

Okay, great. Thanks.

Operator

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

Marc Irizarry - Goldman Sachs - Analyst.

Great you know, Marc maybe you can talk a little bit about LP appetite for more targeted product. We are hearing a bit more about the LPs looking to -- you know instead of maybe putting money into bigger funds looking at more targeted opportunities. Could you just kind of address what that means for the business, potentially from your building out sort of expense spacing? Are your built to sort of you know, increase the number of products with the current cost structure?

Marc Spilker - Apollo Global Management LLC - President.

I think it's a good question. I will just say that it's -- you know, this is an evolution or a revolution. This is something that's happening over time and Gene said many times that we've built a scalable infrastructure and it is growing and what we are trying to do in the first instance is invest in areas of our expertise and so when you look at things like natural resources, leverages also existing capabilities and I will call that a target [asset clause].

When you look at ongoing opportunities in nonperforming [loans] in Europe, we've built a business and money starting to one to go into that [asset class] and maybe that's the place where it's accelerating a little bit but that's a business that has been billed out and in places like India, we are leveraging existing private equity infrastructure. We are trying to be very careful to not only live within our core investment expertise but leverage infrastructure so that we can create interesting margins on a go forward basis.

Roger Freeman - Barclays Capital - Analyst

Okay, and then can you just talk a little bit about the situation with European banks and non-performing loan business. You know, you guys obviously have a history of investing in distress situations and where we -- in terms of the bid ask if you will, for that business and this (inaudible) that you are planning in that situation.



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Marc Spilker - Apollo Global Management LLC - President.

One of the things that I try to emphasize in my script was that, part of the value -- part of our success was not just the fact that we had investment expertise and we have capital which is obviously incredibly important. It's the fact that we are being viewed as a partner and a solutions provider, because each one of these transactions is very complicated, it takes a long time, it's all sorts of issues from the sellers point of view and so I will say that it's challenging and it's hard and it requires a lot of effort and so I wouldn't for a second say that they are not a lot of competition because all these businesses are competitive but it's a very hard space to compete in.

Now one of the things that people have said to us is -- because different estimates here, there is a trillion, there is more of assets that need to be sold and we just don't see it happening and the way that we think about it from the point of Apollo, only a small fraction of those assets needs to come free and come to us for it to be significant to Apollo. And so we continue to see opportunities to deploy capital. Some of the transactions that we are closing are things that we've been working on for three to six months. And we continue to be optimistic that assets will continue to come off, I am not quite sure I will say that these are really distress, because I think that these are sophisticated sellers selling to sophisticated buyers. I think they are trading from our point of view at very good risk returns and you know, we have not necessarily seen it accelerate, given all what's going on in Europe. It is possible that over the next six months, that will accelerate.

Roger Freeman - Barclays Capital - Analyst

Okay, and then you know if we can just get some perspective on the -- which fund are you generating the cash carry from. You called out a few of you know, some of the realization activity that you have forth coming in the fourth quarter. Which funds are you generating the cash carry right now?

Gary Stein - Apollo Global Management LLC - Head - Communications.

Mark it's Stein, it's a handful of funds that have significant holding, underlined holdings in our debt investments so it's leverage source coming up to CAF and to fund VI and to a degree fund VII.

Roger Freeman - Barclays Capital - Analyst

Okay Gary, thanks.

Operator

Your next question comes from the line William Katz of Citi.

William Katz - Citigroup - Analyst

Thank you (inaudible). Just to come back to the opportunity from some of these larger and more complex products. Is there anyway sort of size, you may think sort of evolution and revolution but can you size the potential pipeline that you are potentially targeting beyond the \$500 million in the year close in the third quarter?

Unidentified Company Representative

In terms of the total size of strategic accounts or ...

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William Katz - Citigroup - Analyst

You know, is there a pipeline you can sort of see that can help us frame some of the opportunities in the fee paying assets on a go forward basis.

Unidentified Company Representative

The answer I am going to give you isn't going to be satisfactory, which is, we have some visibilities but I am not sure what we will get across the line and not across the line we have some degree of optimism. You know, one of the things -- and I think we've talked about this before, is that the documentation process is quite expensive for understandable reasons. So even when there is a general agreement of principles, it often takes a while to get through. So we have some visibility, I think there is going to be more but I am not going to give a sizing of it and you know, as many other things in our business, that they could be lumpy.

William Katz - Citigroup - Analyst

Okay, second question is, you mentioned de minimis amount of redemptions in the third quarter, I am just sort of curious as we look into year end, I know your business isn't fully self persuade, but are you saying you kind of step up from the LPs in light of the market volatility and the particularly week third quarter around trying to get the liquid end or exit some of the holdings?

Gene Donnelly - Apollo Global Management LLC - CFO

This is Gene. No we are not. There is a significant notice period that is required for these redemptions, it varies by fund but if we look at what occurred in the third quarter, there has been no significant uptake in notifications for the fourth quarter.

William Katz - Citigroup - Analyst

Okay, and just my last one. From a parent perspective you know, you are sitting on physically saying, lots of cash if you will, stock is coming quite a bit, I know the attention of some of the liquid trading stock, but seem to be suggesting much more of an optimistic view on the business and maybe the stock is reflecting. So just sort of curious if maybe you can just prioritize the use of cash on a go forward basis?

Unidentified Company Representative

I think there is obviously a lot embedded in that question, so we look at these things all the time with our core goals of providing higher retains for our LPs and providing shareholder value. And we spend a lot of time thinking about the flow, we spend a lot of time thinking about strategic acquisitions and we but that all in the mix. We think having cash on the balance sheet is the sensible thing to do and evidence by our ability to do the Gulf Stream acquisition and so we are just going to continue looking at all aspects of ways to create shareholder value, that includes the things that you've talked about which is where is the stock, and what the float is and what is the optimum level of cash on the balance sheet?

William Katz - Citigroup - Analyst

Okay, I think you've taken my questions.

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Unidentified Company Representative

Thank you.

Operator

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

Unidentified Company Representative

Hi Robert.

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

Good morning. Couple of questions. First the \$0.20 distribution. I understand it that there is a different type of earnings streams that comprise that since its kind of difficult to back directly into the \$0.20 from you know, precisely what's disclosed. Given the sense of that, do you distribute a 100% of your cash generation a quarter or is it 75% or 80%?

Gene Donnelly - Apollo Global Management LLC - CFO

Sure, this is Gene. You know, our policy is to distribute a substantial fee cash flow every quarter. Substantial isn't necessarily a 100%, what we distributed in the third quarter does include a couple of pennies this year of realizations generated in the first couple of quarters of this year.

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

Okay, great. And secondly, if memory serves me, the appointment agreement with the three founders, I believe runs out midyear next year, so is there anything you can provide us with some kind of current thinking about continuing those or changing them, obviously one of your competitors went through something and probably, market reactions is what they came up because you know, probably a little underwhelming. So how are you taking any lessons from that or how are you guys thinking about it?

Unidentified Company Representative

Yes, of course we think about it. The founders are fully engaged in the business as they always have been. Those dialogues are not happening and they will over the cause of time and my expectations is that the three founders will be here through that contract period and beyond in the same capacity that they are currently.

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

I guess, maybe a follow-up. Do you think that sometime prior to that you know, sometime next year will -- you guys will be in the position to announce kind of what the -- if you are changing, what the change compensation agreement will be?

Unidentified Company Representative

Certainly a possibility.

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

Okay, and just to confirm but the -- going back to the special strategic account which there have been a lot of questions on. I am assuming that this one is -- since we are closing Q -- I believe in Q3 it's structured more of kind of -- like a drawn down in the sense that you are not going earn fees on it until it's actually drawn capital and maybe the follow onto that you know, can you give us maybe, an idea of the amount of commitments you may have that are not yet you know, earning fees?

Unidentified Company Representative

Can you say the second part of that question?

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

You know the amount of committed capital you have, that is not yet earning fees.

Unidentified Company Representative

Related to that managed accounts?

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

Well just in that and just in general for across the franchise.

Unidentified Company Representative

Yes, the second part of the question, with respect to what kind of capital do we have? You know, our AUM is not yet earning fees that that could earn fees. I think we've stated a number in the past over around \$4 billion which generally includes on-drawing capital and some of our private equity funds as well as certain other funds which like, comprises the bulk of that amount. And then there are some undrawn [lines] of capital -- I am sorry, on lines of credit (inaudible) funds. That also could ultimately, if drawn, earn fees as well.

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

Great. Thanks for taking my questions.

Unidentified Company Representative

Thank you.

Operator

Your next question comes from the line of Kenneth Worthington of JP Morgan.



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Kenneth Worthington - JPMorgan - Analyst

Hi, good morning. First on the uncalled commitments -- I know this is just kind of hypothetical but in terms of those, how much risk at risk of being cancelled, say if it weren't deployed by the end of next year, if actually any is at risk?

Gene Donnelly - Apollo Global Management LLC - CFO

This is Gene. I'm not sure I have the answer to that readily available. From memory, there isn't a lot, but I don't have the specific information in handy.

Kenneth Worthington - JPMorgan - Analyst

Okay, it's not zero, but it sounds like you think it's pretty small.

Gene Donnelly - Apollo Global Management LLC - CFO

That's my understanding.

Kenneth Worthington - JPMorgan - Analyst

Okay, perfect. In your comment in you release, [ACCIN] contributed about \$1.4 billion in subscriptions from the acquisition management agreement. Can you flush that out further for me?

Gene Donnelly - Apollo Global Management LLC - CFO

It is owned by one of our portfolio companies. He acquired an asset management agreement for \$1.4 billion. We then -- those assets then come into the Apollo platform and are managed either in real estate or capital markets, pursuing to different strategies that ACCIN management makes the decisions on and the fees is at the normal rate that those products and allocations will earn from other investors.

So it's clear ACCIN is a reinsurance company and acquired a block in the period and then they have the assets to manage and ACCIN management makes the decision where those assets will get allocated and who will manage on an arms length basis and the 1.2 represents the assets that are being managed by Apollo.

Kenneth Worthington - JPMorgan - Analyst

Excellent, perfect. And then, just high level [sims] invest about \$759 million in the private equity business this quarter. Are there sims about where sim value there. It seems like it might have been a natural resources and then a kind of follow on to that, obviously market conditions have snapped back here but remain really quite volatile. You know, to what extent does the snap back help you in terms of being able to find more investment for your dry powder. Thank you.

Gene Donnelly - Apollo Global Management LLC - CFO

Well, as early said, it's a double edged sword, because when the markets go down we look to deploy, when markets go up we look to realize and so the volatility makes it slightly more challenging because if it doesn't stay down longer of buying and it doesn't stay up long enough to sell, it makes it complicated.

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So in general, we think the volatility accrues to our benefit and so when the market started going down to the third quarter, we were doing what we always do, which was organizing, looking for stress in distressed opportunities which we think we basically still on that zone and it's just that things have been re-priced higher and so then, if the world were to go back down again, we will continue to [pull up] deploy capital or the unrealized marks will get worse but we believe of course that if you make good investments over a long period of time you will realize the value and right now we are sitting there, continuing waiting to deploy capital, the realizations that we stated are coming from, the cash (inaudible) drawn of by the portfolio as suppose to incremental one off transaction you know, realizations and if the market went back up again, we will start to really focus on the realizations that we've described are in the pipeline, and if market conditions got better, we will start to focus on that.

Kenneth Worthington - *JPMorgan - Analyst*

It terms of sims and where you are deploying it's natural resources, is they reasonable sims for the last quarter or is it other places that seem we are seeing more value?

Gene Donnelly - *Apollo Global Management LLC - CFO*

Our natural resources has been a sim for quite a long time around here and so I just -- I think it was just coincidence in the quarter that there were two natural resource investment, but that does continue to be a sim, I would say that the larger sim tends to be -- continue to be Europe. And what's happening with what we talked about earlier, which is bank balance sheet and assets coming off from those balance sheet and that's a lot of dialogue is around that.

Kenneth Worthington - *JPMorgan - Analyst*

Great, thanks very much

Operator

The next question comes from the line of Patrick David of Bank of America, Mary Lynch.

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Hi, good morning guys. So you mentioned going over the preferred carry -- you have of that catch up, I assume that the R5 negative carry in fund VI this quarter was the opposite result, like having the negative result accrue at 80% instead of 20%. Is that the case?

Unidentified Company Representative

Not really.

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Okay.

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Unidentified Company Representative

What we were -- our marks and funds VI were will about the turbo charged carry level, so we had -- we were into the level of realization where we were participating in \$0.20 of every incremental profit dollar. So up down, through the preferred return level, we were returning on average, 20% of the profits that have been generated above that level.

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Okay, but you -- didn't you say that it's below the preferred return level now.

Unidentified Company Representative

And so we dropped in the quarter and we dropped below the preferred return level and to the extent that we've appreciated some subsequently, and as we disclosed both in the press release and in the Q, it's approximately \$1.6 billion dollar appreciation that has to occur after September 30th marks. Roughly 18% appreciation, all of that will go to the preferred return and then we'll be back into that part of carry where Apollo will participate in 80% in every dollar or profit until we achieve 20% overall in responds with the LPA (inaudible)

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Okay, and the Noranda distribution you -- dividend you talked about, will that still be distributed to your holders if you are below the preferred return?

Unidentified Company Representative

If we are -- I mean that's a complicated question. If we go back to our estimate of where the marks were at the end of October, we are above the preferred return (inaudible)

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Right, okay. That's helpful. And could you kind of give us an update on the real estate business in terms of fund raising and to the extent that you are getting attraction as you market that strategy, given it's still fairly new and not really contribution much yet?

Unidentified Company Representative

Yes, I did mention in my open remarks because it's where we were at the end of last quarter which is -- I will say chugging along assets are growing more so on the debt side, on the equity side and we are seeing opportunities on the debt side of the business, and I think that business is kind of continued to grow at its current pace.

Patrick David - *Bank of America/Merrill Lynch - Analyst*

Okay, thanks a lot.

Operator

We have one final question, and your final question comes from the line of Michael Carrier at Deutsche Bank.

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Michael Carrier - Deutsche Bank - Analyst

Thanks guys. One more question on the deployment, during the quarter. So either you look at the market pressures you know, both in credit and equity, you guys are fairly active on you know, obviously a month or a month and a half to deploy and then you know, we got the rally. When you look at the opportunities that you saw (inaudible) the financing available, was that much of a hurdle? I mean, you know, would you have put more capital to use in some of the situation that you were looking at or it wasn't a big issue?

Unidentified Company Representative

Obviously financing is more challenging, but it hasn't been an issue. And I will just -- the one thing that we say this quarter to quarter is that the deployment of capital is very lumpy and so some quarters is far more than other quarters and so what you haven't seen a lot is classic IPO activity with the financing, and what we continue to say is that we are looking for off the beat path differentiated opportunity and it still seems like it's an interesting opportunity to look for and find some of those opportunities so what you see is allocating capital to is differentiated and then classic to the way Apollo operates on the debt side of the business where obviously we don't need to use leverage to buy the debt.

Michael Carrier - Deutsche Bank - Analyst

Sure, okay. And then last one. When you look at the performance of the mark to market you know, the unrealized losses in the quarter, obviously in the public portfolio, we can all track pretty straight forward. I think on the private side, just wanted to understand -- you gave the stats in terms of portfolio companies the revenues the EBITDA, you know, changes in the trends and all those you know, still looking fairly favorable.

It looks like the private side got marked you know, pretty hard as well, so how much of that is based on [comps] out they versus changes in either cash flow expectations you know, EBITDA, growth over the years, you know in the future?

Unidentified Company Representative

Significant amount, I don't have the exact percentage but there was a significant decline in our private -- in our portfolio company -- privately held portfolio companies based on both the general modules we follow, which is comparable -- price to comparables and then some sort of a cash flow methodology. And with the significant decline in stock prices generally in the third quarter, that reflected and weighed heavily on the component of our portfolio companies that are price based on public comparables. And not expectedly, that also recovered nicely based on our estimates in the month of October.

Michael Carrier - Deutsche Bank - Analyst

Okay, thanks guys.

Operator

This concludes the questions and answer section of today's conference I will now turn the floor back over to Mr. Gary Stein for any closing remarks.

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Gary Stein - Apollo Global Management LLC - Head - Communications.

Just want to thank all of you for taking the time to participate on the call. We know you are all incredibly busy to the extent that you have follow up questions, please don't hesitate to get in touch with me or Patrick Parmentier. Thanks again.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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