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PRESENTATION

Operator

Good morning, and welcome to Apollo Global Management's 2013 Fourth-Quarter Earnings Conference Call.

(Operator Instructions)

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 of Corporate Communications*

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP after-tax economic net income of \$1.06 and \$4.80 per share for the fourth quarter and year ended December 31, 2013, compared to \$1.69 and \$3.82 per share for the fourth quarter and year ended December 31, 2012. We also declared a cash distribution of \$1.08 per share for the fourth quarter of 2013, bringing the total for 2013 to \$3.98 per share. Later on the call, we'll discuss the composition of the fourth quarter's cash distribution.

For US GAAP purposes, we reported net income attributable to Apollo Global Management of \$159 million and \$659 million for the fourth quarter and full year ended December 31, 2013, compared to \$172 million and \$311 million for the fourth quarter and full year ended December 31, 2012, respectively.



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

We'll also be discussing certain non-GAAP measures on this call, such as economic net income and after-tax economic net 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. These reconciliations are included in our fourth-quarter earnings press release, a copy of which is available in the Investor Relations Section of our website. Please also refer to our most recent Form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to our business.

This conference call is copyrighted property and may not be duplicated, reproduced, or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow up with me or Noah Gunn after the 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 good morning, everyone. The fourth quarter concluded an outstanding year for Apollo, as our financial results for 2013 reflect the strength of our globally integrated and diversified investment platform that we continue to grow. I'd like to take a few minutes to highlight some significant achievements over the past year in areas such as realizations, AUM growth, investment performance, fund raising, and our management business.

Our funds returned \$23 billion of capital and realized profit to our limited partners during the year, which drove \$3.98 of cash distributions per share for our shareholders. This brings total cash distributions paid out to our shareholders to more than \$7 per share since our initial public offering in 2011. Our cash distributions in 2013 were driven by robust activity in the public markets, where portfolio companies of our funds completed 23 secondary or block transactions, as well as 9 IPOs.

Our AUM increased 42% since the end of 2012, and now stands at approximately \$161 billion, despite heightened realization activity. This growth was driven by the combination of three important factors: strong investment performance, robust fundraising, and the continued expansion of our credit franchise, including growth at Athene.

On performance, the fair value of the PE portfolio of the funds we managed was up 49% in 2013, compared to a 30% increase in the S&P during the same period. This strong performance during 2013 bolstered our long-term track record of a 39% gross, and 26% net IRR in private equity since Apollo's inception.

On fundraising, we raised \$22 billion of new investor capital, driven by our limited partner's strong support of Fund VIII, which raised \$17.5 billion, and I'll provide additional details on this shortly.

We were also successful in raising capital among of strategies across our credit and real estate businesses. On Athene, its recently completed acquisition of Aviva USA in October transformed the company into a leading fixed annuity provider in the US, and added \$44 billion of fee-paying AUM to the Apollo credit platform, helping to further solidify our mutually beneficial long-term relationship.

Our 2013 financial results highlight a positive dynamic that we've discussed previously, which is the growing earnings contribution from our management business to Apollo's overall earnings profile. Although Athene may be the most visible driver of this evolution, it's just one example of how we are leveraging our integrated platform and scale to create value for our investors by growing consistent cash-generative businesses.

To illustrate this point, for the top-line perspective in 2011, the year of our IPO, we generated \$490 million of management fee revenues. And this total has grown to nearly \$731 million in 2013, an increase of 50%.



In terms of profitability in 2011, we reported \$76 million of pretax ENI, or approximately \$0.21 per share of earnings, from our management business. Our management business and earnings have increased fourfold since then to \$331 million, or \$0.84 per share in 2013.

Importantly, this growth is not just a function of rising AUM. It also reflects the scalability of our integrated global platform, and our ongoing commitment to expand the margins of our management business.

Before discussing the highlights of each of our businesses, I'd like to spend a moment on our current flagship private equity fund, Fund VIII, and provide you with some color around this very successful fund raise. We held a final close for Fund VIII on December 31. In total, Fund VIII closed with \$17.5 billion in third-party commitments, plus an additional \$880 million from Apollo and affiliated investors.

We believe the success of Fund VIII reflects the powerful secular trends favoring our industry, including increasing allocations to alternatives, and the consolidation of GP relationships among branded, scaled players with outstanding long-term track records such as Apollo.

A few key statistics regarding the composition of Fund VIII investor base include the following: investors representing over 90% of Fund VII's capital made commitments to Fund VIII; almost 25% of Fund VIII third-party commitments, representing more than \$4 billion of capital, came from investors that are new with Apollo; today, including the nearly 300 LPs invented in Fund VIII, we invest on behalf of more than 800 LPs across the investment products we manage; given our efforts to provide broad-based investment solutions for all of our LPs, approximately 7% of Fund VIII third-party commitments, representing more than \$1 billion of capital, came from existing investors that had not previously invested in our private equity funds.

The composition of Fund VIII also reflects the expanding geographic footprint of our LP base. By way of example, in Fund V, our 2001 vintage fund, approximately 22% of the capital was committed by non-US LPs. For Fund VIII, 55% of the \$17.5 billion of third-party capital raised came from non-US LPs. This is a significant milestone for our franchise and evidence of the strength of the Apollo brand and reputation within the global investment community.

Now I'd like to provide you with a few quick highlights across our businesses. Starting with private equity, our private equity funds maintained a strong pace of realization activity in the fourth quarter, which resulted in aggregate distributions of \$3.8 billion of capital to our fund investors. In the process, we earned nearly \$500 million of realized, carry, and private equity, which was the primary driver of our \$1.08 cash distribution this quarter.

Specifically, these realizations were driven by numerous transactions, including: secondary and/or block shares of our fund's remaining interest in Lyondell, Evertec, and Countrywide, as well as some of our fund's interest in Sprouts Farmers Market, Norwegian Cruise Lines, and Taminco. Additionally, the sale of CKE restaurants closed. At the end of 2013, 56% of the \$23 billion of fair value in the private equity portfolio we manage was held in publicly traded securities, leaving our funds well positioned for continued realizations as windows of opportunity present themselves.

Regarding capital deployment within our private equity funds, activity picked up in the fourth quarter from the low levels seen in the second and third quarters. This activity was driven by a number of investments, including: the previously announced corporate carve out with Pitney Bowes, which is now referred to as Novitex Enterprise Solutions; American Gaming Systems, a leading designer and manufacturer of gaming machines; and follow-on investments in several existing situations including the Caesars Acquisition Co. transaction. Importantly, our transaction pipeline appears to be steadily building, as we seek to identify value-oriented, idiosyncratic investment opportunities.

In the current environment, where valuations remain relatively high, we will continue to be disciplined and patient in deploying our fund's [long-dated] locked up capital. While 2013 was a lighter year for investment activity, as we have discussed before, we still expect our long-term deployment average to be in the range of \$3 billion to \$4 billion per year. We take a long-term view towards capital deployment, which is measured in multiple years rather than quarters, and we remain confident that we will identify ample opportunities for our funds to make attractive investments.

Now turning to our Credit business. We crossed a significant milestone during the fourth quarter, ending 2013 with more than \$100 billion of AUM in credit, which is comprised of: \$50 billion related to Athene; \$22 billion in US performing credit; nearly \$13 billion in structured credit; \$7 billion



in opportunistic credit; and nearly \$9 billion in European credit strategies. Our credit franchise provides us with a powerful platform that enables us to offer our clients a broad range of unconstrained solutions to meet their needs across the risk-return spectrum.

We manage an array of dedicated long-term investment funds that have the flexibility to pursue idiosyncratic and complex opportunities in dislocated credit markets. Some examples of areas we are currently focusing on include: energy mezzanine; insurance; oil and gas royalties; healthcare; shipping; aircraft policing; and emerging markets corporate debt.

In addition, our marketing team continues to be engaged in dialogues with a number of clients around establishing strategic managed accounts, primarily focused on unconstrained credit. As we announced previously during the fourth quarter, we closed on a \$400 million strategic account with a sovereign wealth fund to invest in US and European credit. Through these customized accounts, we were able to utilize Apollo's broad range of credit products to address our client's investment objectives beyond traditional fixed income.

We also remain active in deploying capital in a variety of differentiated credit investment opportunities. For example, during the fourth quarter, our second European Principal Finance Fund, which we refer to as EPF-2, agreed to purchase a minority stake at Altamira, a real estate loan servicing and recovery arm of Banco Santander.

We believe this transaction, which closed last month, further solidifies EPF-2's investment presence in Spain and Western Europe more broadly. Including Altamira, our funds have managed and made investments in loan servicing platforms in Europe that, in aggregate, employ more than 1,000 individuals.

Clearly, we believe the restructuring of the financial services landscape in Europe is creating compelling investment opportunities, and we are in the early stages. Importantly, our funds are flexible buyers of assets with long-term committed capital, a strong brand and track record, and significant servicing capabilities. For these reasons, we believe our funds are well positioned to capitalize on the significant opportunities to acquire attractive assets and businesses across Europe.

Lastly, the breadth of our capabilities within the alternative credit is far reaching, including the corporate securitization market, where we continue to be one of the largest managers of CLOs in the United States. We remain active in this market through the issuance of new CLOs in the US and Europe, as well as through the refinancing of existing CLOs. In total, we priced nearly \$4 billion of CLOs in 2013, including both new issue and refi activity.

On real estate, we continue to build this business by leveraging Apollo's integrated platform, and capitalizing on the synergies that exist within our credit activities and expertise. For example, our EPF funds deployed over \$500 million of equity into European commercial real estate transactions during the year that involve non-performing loans, as well as investments that involve distressed or stressed properties.

Within the boundaries of real estate segment itself, we remain active in real estate debt, with our funds deploying over \$2.5 billion of capital in 2013, including \$938 million in the fourth quarter, that comprised, firstly, mortgage loans, subordinate financings, and CMBS. On the equity side, we remain opportunistic across property types and geographies, with approximately 78% of AGRE US fund's base capital now committed.

In summary, as we look back on 2013, we continue to execute on our strategic plan, and our financial results in the fourth quarter completed an outstanding year for Apollo: we continued our strong pace of realizations, and announced distributions totaling \$3.98 of cash per share; our PE portfolio was up 49%; we successfully raised the largest fund in our history in Fund VIII amid strong investor demand; and we continued to benefit from growth in our Credit business, including Athene.

As we look ahead to the remainder of 2014 and beyond, we believe our growing and evolving integrated investment platform is well positioned to carry the Firm forward. With that, I'll turn the call over to Martin for a few brief remarks.



Martin Kelly - *Apollo Global Management LLC - CFO*

Thanks, Marc, and good morning again, everyone. Today, I will briefly touch on a few details around the fourth quarter and 2013 financial results, before we move on to your questions.

Starting with our cash distribution of \$1.08 per share that was declared for the fourth quarter -- includes our new regular distribution of \$0.15 plus \$0.93 of other cash earnings. The additional amount above our regular distribution was primarily driven by carry earned from the sale of equity and debt investments held by our funds.

Following numerous secondary transactions in the quarter, which Marc highlighted, I would like to provide you with some helpful data points for certain of our larger or newer public holdings as of the end of 2013: Fund VI held 45.4 million shares of Sprouts; Funds VI held 42.5 million shares of Norwegian Cruise Lines; and Funds VI also held 32.2 million shares of Taminco; Fund VII held 152.2 million shares of [Lion] Entertainment, which completed its IPO in December; and Fund VII also held 56.3 million shares of EP Energy, which completed its IPO in January.

Placed upon announced or settled transactions from our private equity funds since the beginning of January, including the secondary sales of Rexnord and Athlon shares, as well as the block sale of Constellium shares, we have realized approximately \$0.32 per share of net realized carry so far in the first quarter.

Turning now to the performance of our private equity funds, portfolio company investments appreciated by 9% during the fourth quarter, which was driven by 14% appreciation in private portfolio holdings, and 5% appreciation in publicly traded holdings, following a particularly strong third quarter.

Regarding portfolio company performance, the aggregate revenues for the Fund VI and VII portfolio companies were up 1% for the rolling 12-month period ending December 31, 2013, compared to the 12-month period ending September 30, 2013, while EBITDA was up by an estimated 2.5% over the same period. Looking at the year-over-year comparison, aggregate revenues were roughly flat for the 12-month period ending December 31, 2013, compared to the 12-month period ending December 31, 2012, while EBITDA was up by an estimated 3% over the same year-over-year comparison.

Moving on to our Management business, for the full-year 2013, Apollo's Management business earned \$331 million of ENI versus \$223 million in 2012. For the fourth quarter, the Management business earned \$113 million of ENI, versus \$63 million in the third quarter of 2013. The quarter-over-quarter increase was driven by a variety of factors.

On the revenue side, management fees were up by \$67 million, driven by a rising contribution from our Credit business, due to Athene, which I'll discuss in a moment. The sequential increase in management fees was also driven by Fund VIII, which added an incremental \$7.5 billion of fee-generating AUM in the period.

The fourth quarter included approximately \$6 million of catch-up fees earned from the beginning of the Fund's investment period on September 1 of last year that are not expected to recur. Next, advisory and transaction fees were up \$26 million quarter-over-quarter, primarily due to an increase in the monitoring fee we received from Athene, which I'll discuss further, as well as modestly improving core transaction fees.

Turning to expenses, fourth-quarter compensation costs were sequentially lower, primarily due to year-end adjustments to discretionary compensation. However, lower compensation expenses were more than offset by higher non-compensation expenses during the fourth quarter.

The increase in non-compensation expenses was driven by elevated Fund formation costs, principally driven by Fund VIII, as well as incremental costs related to the growth of Athene Asset Management. Given the general one-time nature of Fund formation costs, we do not currently expect the majority of the quarter-over-quarter increase in non-compensation costs to recur.

Regarding taxes, our fourth-quarter and full-year 2013 ENI effective tax rates were 12% and 11%, respectively. Recall that our ENI tax provision calculation assumes full share conversion, and reflects the relative earnings contribution of our Management and Incentive businesses, which continued to evolve with the growth of our Firm, as Marc mentioned.

Moving on, there was approximately \$13 million of incentive compensation accrued in the Incentive business for the fourth quarter, bringing the total for the full year to \$62 million. You may have noticed prior-period revisions to our compensation line items within our segment disclosure this quarter, which reflects adjustments to our incentive pool allocation method to more closely align the compensation with the businesses that generate the incentive income.

I'd now like to provide some additional information on Athene's impact on our results this quarter. First, Athene's acquisition of Aviva USA added approximately \$44 billion of incremental AUM to Apollo's Credit segment in the fourth quarter.

Athene Asset Management is providing Athene with a wide range of asset management and other services for all of its assets, for which it earns a gross fee of 40 basis points per annum. It is important to emphasize that this is a gross fee, and that Apollo, including Athene Asset Management, assumes all costs associated with providing these services.

Second, the percentage of Athene-related assets invested in Apollo-managed assets was approximately 15% as of December 31, 2013. As we have stated previously, we expect this percentage to increase gradually over time, provided that we continue to perform well in providing asset management services to Athene.

Lastly, Apollo has been receiving, and will continue to receive, payment of monitoring fees on a quarterly basis through the end of 2014. This fee, which may be settled in cash or in equity shares of Athene, at Athene's option, is currently expected to be settled in Athene equity upon Athene's completion of an IPO. For the fourth quarter, this fee was \$44 million, effectively double the third-quarter amount.

As I mentioned on our last call, the calculation of this quarterly payment is dependent on the level of Athene's statutory capital and surplus, which roughly doubled in size following the Aviva acquisition. As a reminder, while this fee is additive to ENI, it is currently being accrued as a non-cash item.

Before closing, I'd like to make a final comment related to our balance sheet. In December, subsidiaries of Apollo refinanced our long-term debt at a more attractive spread to LIBOR, and we simultaneously initiated a \$500-million revolving credit facility, which remains undrawn today to provide additional financial flexibility if needed.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Marc Irizarry, Goldman Sachs.

Marc Irizarry - Goldman Sachs - Analyst

Just a quick question on Fund VIII, and just how we should think about capital deployment. You guys are, over the course of history, have been able to catch some disruptions or dislocations in credit and distressed opportunities within your funds. I'm curious when we're out there talking to investors about Fund VIII, what are some of the themes, and do you need a little bit more opportunities in distressed to start to put that money out for Fund VIII at a faster pace?



Marc Spilker - *Apollo Global Management LLC - President*

Thanks, Marc, for the question. I think it's broader than just the current environment the way it stands this quarter. Which is, if you look over the history of the Firm markets, and down markets, distressed environments, growth environments that the Firm's been able to find idiosyncratic opportunities and perform extremely well. And so LPs have great confidence in our ability to navigate the cycles and navigate the balance sheet.

And the investment performance going way back has proven that out. I think we've proven our ability to move the dial from distressed, to opportunistic buyouts, to corporate carve-outs. Clearly, in this environment, we're focused on corporate carve-outs, but not limited to that. And so we'll continue to be very flexible and search for idiosyncratic opportunities in a very classic Apollo way, and I think that's what LPs are thinking about when they trust us with their capital.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. And then, Marc, if you can give a little more color on some of the attractive assets in Europe that you mentioned, in terms of businesses out there. How do you see your current lineup of what you have for your credit businesses, particularly now with Athene, versus maybe the platforms that you can add over time? Are you aware -- are there still a very attractive opportunities out there that can further augment the platform, or do you have what you need right now to really take advantage of the opportunities in Europe?

Marc Spilker - *Apollo Global Management LLC - President*

We've been talking about this for a couple of years, and there have been and has been much debate over what the opportunity is in Europe, and we continue to think that we are still in the early stages of a few things. One is, the overall balance sheet leverage coming down in Europe. And secondly, the restructuring of the entire financial services landscape. And we think that this is creating really big, long-term secular opportunities for us. And so on the one hand, I feel good about how much we have grown and the opportunities that we've taken advantage of, but I still continue to believe that we're still early stages of a very long term opportunity that is going to create great opportunities for us to continue to buy assets and continue to buy businesses.

And when you can execute well as we have, we are creating a reputation and a brand in Europe, in local markets for being able to have the long-term capital, the team that could work through all the local market complexities, and then a little bit behind the scenes. And we seem to mention it on an almost every call that, the servicing capabilities that we're building up in Europe is a huge competitive advantage. And it still seems, at least to me, that it's early stages for this opportunity that I think we'll create great opportunities in growth over the next bunch of years.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, and then two questions on the private equity fund raising. First, on the placement fees, you noted that 22% of your investors were non-US for Fund V, and that Fund VIII you're now up to 55% of investors are non-US. When we think about the placement fees and the acquisition costs of going out and getting global investors, your re-up rates were high. I'm curious, is there leverage that you're getting with your scale around fundraising, or as the mix shifts to more global investors, does that pressure placement fees a little bit?

Marc Spilker - *Apollo Global Management LLC - President*

Well, I'm not sure what you're referring to on placement fees. The way I think about it is, what we've said over the last three years is that more and more of our LPs are wanting to do more investing with fewer firms. And what we have done is, we've made a commitment to having a more solution-based marketing effort. We've built out a global marketing team. As you know, the demand for investment returns and financial returns is as high as it's ever been, and that's true everywhere globally.



And because we have a global marketing effort, we have global relationships, we have a global footprint, we're just appealing to a broader range of LPs than we had 5 or 10 years ago. And so I think it really is evidence of the demand for what we do well, which is provide investment returns, and doing it on a global basis is opening up tremendous doors for us.

Operator

(Operator Instructions)

Mike Carrier, Bank of America.

Mike Carrier - *BofA Merrill Lynch - Analyst*

First question, on the growth outlook, I think when we look at 2013, pretty much across the board from an asset standpoint, whether it's in credit or private equity, it was a big year for Apollo. So, Marc, I think you gave a lot of detail on what you can do on the LP side in terms of increasing traction. I think on the product side, are there other products, or even other segments, that you guys aren't in that you think the dynamics in the industry are changing that make it more attractive? And then even on the Athene side, how to grow that business when you look out like a year or two?

Marc Spilker - *Apollo Global Management LLC - President*

You asked a couple of really big questions there. One, which is Athene closed Aviva, and you raised your largest fund in your history, and that's all reflected in 2013. That's great, what's after that? I think that's a great question, because it really goes to what's been built here over the last period of time, which is really based upon the fundamental structural and secular changes going on in the marketplace. When you think about the credit business, for example, what we're looking to do is build businesses in areas where we believe that we have expertise, where others for one reason or another may be abandoning, and where our LP will find those returns attractive.

When we took off the list of credit businesses that we're in today versus where we were seven, eight, nine years ago, you could see that we've significantly grown the platform, and still believe there are many opportunities for us to grow it significantly. I think that we're just at the beginning of the structural shift that's taking place in the financial markets. Going back to what we've said many times on previous calls, that the structural shifts, the regulatory change, are making it more difficult for some to be in certain businesses, and our LPs demand for financial returns in our portfolio has never been higher. So I feel like there's plenty of opportunity for growth. Then I'll highlight that we continue to see a trend towards strategic accounts across credit, and as the market likes to refer to as go anywhere credit, and that is emerging as an important part of our platform and growth that I think we should all keep our eye on.

Operator

Matt Kelley, Morgan Stanley.

Matt Kelley - *Morgan Stanley - Analyst*

I'd be curious, coming back to the distributions, as you think about where you are in the lifecycle of some of your private equity funds versus some of your credit funds, do you think that we're more likely to hit a peak in distributions private equity before credit? Or do you think they'll follow a pretty similar path, or any lag between those two, as you see where you are in the harvesting cycle, would be helpful?



Marc Spilker - *Apollo Global Management LLC - President*

It's a very important question. What we continue to refer people to, because the question has always been where are you in the realization cycle? Is that -- and I think -- and I referred to it in my opening comments, that there's \$23 billion of fair value in the ground. And you could think about what kind of appreciation you want to put on that, and what the average distribution per quarter, and you could see that there's plenty of room to grow in terms of where we are in the realization cycle.

Having said that, our portfolio was up 49% in 2013, and it's really hard to predict and forecast where the markets will go next year, and we had \$3.98 per share in distributions. Again, I'm not predicting what it will be, but certainly 2013 was a very, very good year, and one that I think will be hard to repeat. But again, I don't know what the markets will do.

Then on the deployment side, deployment has picked up and we feel optimistic that we will be able to deploy our capital and ultimately down the line put Fund VIII in a position that we've seen our prior funds. Then I'll just make one more comment, which is, given the diversity of the platform that we have in real estate, and in credit, and in PE, and natural resources, that there are many sources of distributions, I think, that are going to be available over the next bunch of years.

Matt Kelley - *Morgan Stanley - Analyst*

Okay, and then my follow-up is on your platform of products that you have, specifically on real estate. Obviously, you're early in the formation of that platform. But you've done some nice things with your own organic funds and you have the city funds. Where do you think you can take that platform from here? And is there anything else outside of your current segments and Athene that you're thinking about could be additive to your platform, or how do you think about that going forward buy versus build as well?

Marc Spilker - *Apollo Global Management LLC - President*

We continue to believe there's an opportunity in real estate, we're sub-scale relative to where we want to be. We acquired the city platform at the bottom of the crisis. It was an equity platform, and that's been in runoff, and so we've had to replace all those assets plus organic growth. What we've tried to do over the last couple of years, is make sure that we're executing our real estate strategy consistent with the way we think about investment capital, which is nuanced, idiosyncratic, complex, and while we are growing our real estate private equity business, the real estate debt business has grown more quickly. That's something that we feel that we have built great expertise in, and see continued opportunities, as well as our integrated platform.

I mentioned in my remarks, that on the one hand, we report our real estate segment, which is our dedicated real estate business. On the other hand, if you look through private equity and the rest of our credit businesses, including EPF, that we do real estate and real estate-related investment there. And so I think of our real estate footprint as larger than what you see in the segment, and I think that that will just continue to grow, and our team has grown, and our expertise has grown, and it's becoming more global, particularly in Europe.

Operator

Robert Lee, KBW.

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

The first one I have is, you guys have clearly for a while talked about the opportunities in Europe, and particularly in the credit space. And I'm just curious, unlike some of your peers who have focused a lot of energy on Asia in the sense to not come quite as much in conversations with you guys. So if you'd maybe update us on some your initiatives there, and how you feel about your footprint in that marketplace?



Marc Spilker - *Apollo Global Management LLC - President*

So you're asking specifically about Asia?

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

Yes.

Marc Spilker - *Apollo Global Management LLC - President*

Asia has always been a, generally speaking, a challenge. Because as you know, we are a value-oriented contrarian, and I know every market is slightly different, but generally, more growth-oriented, so it has made it more challenging. We divide Asia really into two businesses, which I think is apropos of our entire platform. One is, as part of our global PE footprint, we have a team in Asia, and we highlight the [nine] investment, and that's integrated into our global private equity franchise, where we look for the best values anywhere in the world.

And then the second piece, the second line of business really is, we've brought the entire thing together in an integrated business, working as a team looking for distressed, looking for idiosyncratic credit, and real estate transactions. And we invest in Asia, some as part of global portfolios, and we have small funds dedicated to Asia. We will grow that based upon the size of the opportunities that we see. And for now, we've seen much larger opportunities in the US, and we're seeing larger opportunities in Europe. But Asia is a place that we're going to continue to invest in.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

In terms of -- and by the way, thank you for the color on both the Fund VIII and the [corporates] debt realizations, very helpful. On the Fund VIII, Marc, curious, as you're talking with clients, you mentioned you're seeing a rising allocation to global integrated platforms. Can you give us a sense of where the volumes are coming from? Is it coming from other alternative managers? Is it coming from other generic products, and what's the appetite on a go forward basis?

Marc Spilker - *Apollo Global Management LLC - President*

Thanks, Bill. Again, this goes back to the structural shifts. I think within, quote-unquote PE, we've talked about a bifurcating industry, where the larger scale, best performers are gaining more assets. And you probably know the statistics as well as I do, that many of the funds that haven't performed as well, their recent funds are fractions of what their prior funds were. And the firms that have done better are raising funds that are equal to or greater than. So that's one element which is rational.

The other element is that when you look at a typical asset allocation of a pension plan, the thing that we keep on saying is that if you look at where sovereign and government yields are, if you look at high-grade corporates, and if you look at agency securities, the yields on those and then the expected returns going forward over the next bunch of years. Those do not seem like investments that will be accretive to a portfolio where your liabilities are growing at 7.5% or 8%.

And so the trend -- people in the market generally refer to it as alternatives, and we tend to think of it more as unconstrained credit. So increasing allocations from the fixed income bucket towards unconstrained credit, is one of the, I think, the biggest areas of growth. And I think that the two that I highlight is where a lot of the growth is coming from.



Bill Katz - Citigroup - Analyst

Okay, that's helpful. And then just maybe more of a modeling question, but as you've consolidated the Athene and Aviva transaction, how do you think about asset growth for that particular line in 2014?

Marc Spilker - Apollo Global Management LLC - President

Athene has put out a lot publicly, and you could take a look at that, and put some kind of growth rate on that. I don't know the answer to the question, other than Athene has built a great platform, and I would assume that there's going to be growth, both organically and potential for inorganic growth. So the AUM will scale proportionate with that. They run a very good business. They have do have a sales force where they can dial up organic growth.

And while it's hard to imagine the pace of M&A activity in that part of the industry being as robust as it has been in the last two years, I don't think the reorganization of that business is completely finished. And so there are some potentials there, but it's too hard to predict. The AUM growth would scale proportionate.

Operator

Brennan Hawkin, UBS.

Brennan Hawkin - UBS - Analyst

Generally, are you guys seeing an increase in confidence from strategic buyers that could provide another avenue to sell assets in that channel?

Marc Spilker - Apollo Global Management LLC - President

It's a good question. I would say it seems like that confidence has come and gone over the cycle of the market, over the past couple years. You would imagine that if we get to the other side of taper and organic growth in the economy is solid, that this backlog of corporate activity would start to come out. I would say that that is, in my mind, a likely outcome.

So while at the present moment, strategic dialogue has picked up slightly, it's always very hard to predict which one of these things get across the line. But I feel like there is an expectation that growth in the economy will continue to go up in a muted way, but nonetheless improve. And that will raise confidence at the corporate level, which will inspire a bunch of activity that it has felt like it's been in the backlog for two or three years.

Brennan Hawkin - UBS - Analyst

Okay, all right, thanks. And then my follow-up, is we've got Lyondell sales completed here. In speaking to investors, there's some concern about how you guys fill that hole on the distribution side. Can you give some color around how you're thinking about that, and whether or not you feel as though there's plenty in the pipeline in that \$23 billion, that's relatively close to realizations that can allow for current levels to be sustained?

Marc Spilker - Apollo Global Management LLC - President

There were two questions there. The \$23 billion is a number, and so eventually, hopefully, that will all turn into realizations, and so you could do the math on that. On Lyondell, on the one hand, I would acknowledge those kind of investment opportunities and results don't come around every day. So that will be a hard one to replace. On the other hand, if you look at the gross and net IRRs of Fund VII, it is on our historic average. Fund VII wasn't just about Lyondell. It was about a lot of good investments.



You just have to look at our long-term investment returns, and decide whether or not you think that we're capable of continuing to do that, which we think we are. And as much as we all would like to have more Lyondells, that there are going to be plenty of opportunities, we feel, to continue to perform the way we have historically that will turn into the kind of distributions that we all hope and expect.

Operator

Christian Bolu, Credit Suisse.

Christian Bolu - Credit Suisse - Analyst

Just back on Athene, as we look further out, how do you think about the overall implications for rising rates on Athene? Seems to me like it could spur greater demand for fixed annuity products, but may have negative implications for Athene's investment portfolio. I'm just curious to how you think about the overall implications.

Marc Spilker - Apollo Global Management LLC - President

A lot has been discussed by Athene about the topic, and I could refer you to what has been publicly disclosed about the portfolio. I would say that what Athene and Jim Belardi have said, is that they have positioned themselves for higher rates. So from a point of the current portfolio construction, reinvestment risk is something we've focused on, and if rates are higher, the ability to invest higher will probably accrue to the benefit of Athene.

And the other part of your question, which I think is really important which is, that the success of Athene and the going forward growth. A lot of that is going to be driven by the incredible change that's happening in the retirement part of the business, which is the aging population. And you know the statistics as well as I do, that for the next 15 years, there will be 10,000 new people in the bucket of 65 and older. Fixed annuities are a great retirement vehicle, and so the demand for retirement product will continue to grow. And I think that that is one of the big secular trends that we are starting to capitalize, and will continue.

Christian Bolu - Credit Suisse - Analyst

Thank you. Just a quick follow-up. In the credit business, it looks like FRE margins expanded nicely during the quarter. Do you see this trend continuing now that you have a much bigger AUM base from Athene?

Martin Kelly - Apollo Global Management LLC - CFO

Sure. Christian, it's Martin. It has expanded. I think that reflects a full quarter of the fee revenues and associated expenses from the incremental assets coming in from Aviva. I think looking forward, we don't -- because Athene Asset Management is integrated, we don't plan to present the direct expenses of Athene Asset Management. But I would think that the costs may increase modestly as the platform continues to grow out, but it shouldn't be significantly different from where we see it now.

Operator

Ken Worthington, JPMorgan.



Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Just outlook for fund raising, 2013 was an awesome year. For PE, is there anything we should expect for 2014? And then as you think about the pipeline of fundraising for credit, excluding Athene, because Athene should be huge as well, how does it look versus what you guys did in 2013? Better, worse, same, any color would be helpful. Thanks.

Marc Spilker - *Apollo Global Management LLC - President*

Again, with the integrated assets from acquisition at Athene and raising the largest fund we've raised in our history, it's going to be hard to repeat that. Having said that, our platform continues to grow. There are a number of funds that we're in the market with in credit that we continue to raise capital for. We're focusing on illiquid credit investing, where we still see good risk adjusted returns. Our insurance practice continues to grow, and we believe that we are and continue to raise capital against that. Natural resource is a big opportunity.

Financial Services continues to be a big opportunity. There are opportunities for new funds, and co-investments, and managed accounts continue to be a really big focus on the part of our LPs, and our entire global marketing team is very focused on that. But what I was really trying to focus on some in my opening comments and a little bit in answering some of the questions, is that broadly across the credit markets, big opportunities -- and I still think that we are in the early stages or at the beginning of this secular shift.

And so there are opportunities, I believe, that are going to come up over the course of the year that aren't currently on the plate, plus all the things that we're currently doing. At the beginning of the year, I acknowledged you'd always -- you look at what you have to do for the year and it always seems daunting. But when you step away from it and look at the opportunity that we're faced with, I have a high degree of confidence that big growth is ahead.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Fair enough. And then, you get a lot of information and data from your portfolio of companies. What is it telling you about 2014?

Marc Spilker - *Apollo Global Management LLC - President*

There's not -- Martin went through the statistics, and when you go through it all, there's not a huge amount of information there. I would say generally, to me, it feels like things continue to improve, but not in a straight line. And it feels to me that there is a desire for things to get better, so it feels like people will be more on the constructive side. But 2014 will probably be a more volatile year than 2013. We've seen it in the first month of the year, but we probably come through 2014 with an improved equity market. But it's hard to believe that 2014 will mirror 2013.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. Thank you very much.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

First question, a numbers question really quick for Martin. You mentioned some of the increase in the non-comp expense this quarter won't recur. Just wondering whether you can give us a decent run rate for that line item going forward?

Martin Kelly - *Apollo Global Management LLC - CFO*

So the comment I made was really directed at the placement fees. So within Q4, we had placement fees that you can see itemized. And then there were certain incremental costs that were fund organization costs associated with raising funds that AGM has to absorb, and they are they are of a one-off nature.

Now, I guess offsetting that somewhat is the platform is growing, and so we're trying to manage that in a sensible way to improve margins, but with the growth comes increasing costs. But compensation and non-compensation are growing out with the investment teams, and the infrastructure that's needed to support that. So it's hard to predict. But as we expect the platform to grow, then the costs will grow in a way that we expect will preserve the margins and grow the margins over time.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Okay, and then my follow-up for Marc. I know this has been asked a few different ways, but I'll try asking it differently. When you look at your pipeline today, and you mentioned that it is starting to get a little bit better, I'm just trying to frame up the size of the investing pipeline. And maybe you could help us figure that out, or answer that by looking or talking about your pipeline today, and comparing it to how it looked a couple quarters ago or to start the year?

Marc Spilker - *Apollo Global Management LLC - President*

As I said in my opening comments, that it looks better. But what we always say about the pipeline, is things aren't done until they're done, and sometimes you execute everything in your pipeline, and sometimes it's nothing. But given where we are and what we see in the market, we continue to believe in the \$3 billion to \$4 billion in PE.

The number of opportunities that we're seeing in credit seems to be growing, and while PE had a lower than cycle average investing last year, credit continues to grow. And we see all the transactions that we're announcing. So it's all slightly improved, but we'll just have to see what we get across the line.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Most of my questions have been asked. I have one quick question on the semantics around Fund VIII. How much of the management fee associated with that \$17.5 billion was not in 4Q at all? Given that the final close was on December 31st?

Martin Kelly - *Apollo Global Management LLC - CFO*

So Patrick, the Q4 reflects a full quarter's worth of management fees on the full \$17.5 billion. Because the fees are retroactive back to the first closing, which happened in September. So, the one point I made on the call, though, was included were \$6 million of catch-up fees, which is that look-back effect. But if you take that out, it's a clean full quarter's worth of fees.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Great. Thanks a lot.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

First question is another one on the fundraising side. Maybe if we can think of the pace, obviously, the opportunities are tremendous longer-term, you laid out a very good case for that, Marc. But if we could look at the pace for 2014, and if you can make comments on areas that you talked about in Europe, given the restructuring of the financial landscape there? How immediate is that opportunity for you?

And then also on the strategic managed accounts within unconstrained credit, the capacity to ramp that up even over say, the next 12 months? And then also the 15% of Athene managed by Apollo, that gradual increase. What kind of magnitude of increased should we expect over the next year in that?

Marc Spilker - *Apollo Global Management LLC - President*

Can you repeat the first part of the question?

Brian Bedell - *Deutsche Bank - Analyst*

The first part was I think that there's been three areas that you would -- it was Europe, the strategic managed accounts in Athene, and the basis of it was really the pace of the opportunities. All great long-term opportunities, but if we can think about what we should roughly frame in for 2014. I know that's hard to predict, but from a magnitude perspective of that pace, if that makes sense.

Marc Spilker - *Apollo Global Management LLC - President*

I would say PE-wise, 2013 felt like a below average year in terms of investment pace, and our hope is that 2014 is better. The investment pace in credit, 2013 is probably a good baseline, but we continue to see greater opportunities. And then when we -- prior to Aviva, we had six of 16, which was almost 40%. At that point, we said that that doesn't seem reasonable that is the right long-term number. Then we made the acquisition, and it went to six of 60, and now it's up to nine of 60. And given the opportunities that we're seeing, I think it's fair to assume that that will go up. But there is no target. That number goes up when we find investment opportunities that make sense for Athene.

Brian Bedell - *Deutsche Bank - Analyst*

And then on the strategic managed accounts, and again, the pace of the opportunity within Europe in the context of what you talked about?

Marc Spilker - *Apollo Global Management LLC - President*

Strategic accounts ebbs and flows. Two years ago, we did a lot of very sizable, and what we said then, which turned out to be true, that it was unreasonable to assume that pace. But there is a steady stream of dialogues around strategic accounts. So I continue to believe that will be a core part of our business, and that's really focusing on broadly investing across the credit platform, which is a big theme that I think will continue. So I think that opportunity will grow. And I also think that that opportunity is important, not just for institutional, but for retail. Europe, like a lot of the things we've talked about, I still believe is in its earlier stages, even though we've been talking about it for five years. I still think Europe is in its early stages, and we are starting to see a little bit of an acceleration of that opportunity.



Operator

It appears that we have no further questions at this time. I would now like to turn the floor back over to Mr. Stein for any additional or closing remarks.

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

Thanks, operator. Thanks, everybody, for taking the time to participate in our call this morning. And as we said if you have any follow-up questions, please feel free to call me or Noah Gunn. Thanks very much.

Operator

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

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