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APO - Q3 2013 Apollo Global Management, LLC Earnings Conference Call

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## PRESENTATION

**Operator**

Good morning, and welcome to Apollo Global Management's 2013 third-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.

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

Thanks, 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 $1.34 per share for the third quarter ended September 30, 2013, compared to $0.98 per share for the third quarter of 2012. We also declared a cash distribution of $1.01 per share for the third quarter of 2013. Later on the call, we'll discuss the composition of the third quarter's cash distribution.

In addition, we'll provide you with details regarding a change we are making to our distribution, beginning with the fourth quarter. For US GAAP purposes, we reported net income attributable to Apollo Global Management of $193 million for the third quarter ended September 30, 2013, compared to $83 million for the third quarter of 2012.

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

We will also be discussing certain non-GAAP measures on this call, such as economic net income and 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 third-quarter earnings press release, a copy 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 this release or on this call, please feel free to follow up with me, or Noah Gunn, after the call. With that, I would like to turn the call over to Marc Spilker, President of Apollo Global Management.

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

Thanks, Gary, and good morning, everyone. We have a lot to cover with you this morning, so I will focus my remarks around four key topics -- fundraising; investment performance; realization activity; and Athene. I will also briefly provide some comments around our businesses, as well as our quarterly distribution.

Regarding fundraising, we raised more than $4 billion in new investment capital across the firm during the third quarter, and nearly $14 billion over the past four quarters. As we have discussed with you on our prior calls, we believe Apollo continues to benefit from several powerful secular trends that are broadly favoring the alternative asset management industry, such as increasing allocations to alternative investments, and the consolidation of [lender]-partner relationships among a smaller number of branded, scale players with strong track records such as Apollo.

As many of you know, we are actively fundraising for [Fund VIII], which is our current flagship private equity fund. I am pleased to note that fundraising continues to progress very well and, as of today, Apollo has received commitments of approximately $12 billion of capital for this fund.

Our success in raising new capital across Apollo's integrated platform is attributable to our strong LP relationships, as well as the investment performance of the funds we manage. And, during the third quarter, our funds continued to perform well.

For example, within our private equity business, the funds we manage have generated a 39% gross, and 26% net, IRR since Apollo's inception in 1990. In addition, during the third quarter, the fair value of our private equity funds appreciated by 18% as compared to the 5% gain in the S&P 500.

On the realization front, the funds we manage have continued to monetize investments, as windows of opportunities permit, resulting in significant realizations and cash distributions for our fund investors and shareholders. During the third quarter, Apollo's funds generated more than $6 billion of realization, and we declared a cash distribution of $1.01 per share. Over the past four quarters, our funds have successfully completed approximately $22 billion of realizations, resulting in total cash distributions to our shareholders, over this time frame, of $3.95 per share.

We also continue to diversify and grow our business in a variety of differentiated ways such as our strategic relationship with Athene, which is one of the leading providers of fixed annuities in the United States. On October 2, Athene completed the acquisition of Aviva USA. This transformative transaction added approximately $44 billion of fixed-annuity product to Athene's balance sheet.

As a reminder, all of Athene's assets are being managed by Athene Asset Management, which is a subsidiary of Apollo. Athene Asset Management provides Athene with a full suite of investment management services including asset allocation; direct asset management; risk management; asset and liability matching; M&A asset diligence; hedging; and other services typically built in-house with significant supporting infrastructure, or provided by a full slate of specialty firms.

Athene Asset Management has a team of full-time, dedicated investment professionals with significant experience directly sourcing, underwriting, and managing specific investment and non-investment grade credit, in which insurance companies, such as Athene, typically invest. In addition, Athene Asset Management has access to Apollo's broad credit platform infrastructure, and more than 250 investment professionals across a myriad of asset classes. Athene Asset Management, and its relationship with Athene, is just one example of how we are leveraging our integrated platform and scale in the credit sector to grow our business and create value for our investors.

I would like, now, to provide you with a few quick highlights across our businesses, starting with private equity. We maintained a strong pace of realization activity across our private equity funds in the third quarter, which resulted in aggregate distributions of $4.2 billion. Specifically, these realizations were driven by several capital markets transactions, including secondary share sales of Lyondell, Evertec, Berry Plastics, Norwegian Cruise Lines, and Countrywide, as well as our funds' remaining interest in Realogy.

Additionally, our funds sold a small amount of their holdings in Athlon Energy during its successful IPO in August. And while no shares in Sprouts Farmers Market were sold in connection with its July IPO, this offering was also well received, with the price more than doubling on its first day of trading.

Over the past few quarters, we have built significant momentum around realizations, and our funds have continued to monetize investments during the fourth quarter. It is worth noting that last week's $1.1 billion secondary sale of the majority of our funds' remaining interest in Lyondell, brings us near the end of this highly successful investment, which, at a realized multiple of invested capital of more than 5 times, is the most profitable investment in the Firm's 23-year history.

Just to touch briefly on capital deployment within our private equity business, activity remained light, again, during the third quarter. But our transaction pipeline is steadily building as we seek to identify idiosyncratic opportunities aligned with our value-oriented investment approach. For example, we recently completed a complex corporate [card-r] transaction with Pitney Bowes to acquire their management services business.

And as we have noted previously, in the current environment, where valuations are relatively high, we will remain disciplined and patient in deploying our funds [loan-dated] locked-up capital. We take a long-term view towards capital deployment, which is measured in years, rather than quarters, and we remain confident that we will identify ample opportunities for our funds to make attractive investments over time.

Now, turning to our Credit business. During the third quarter, we continued to expand our credit platform as we raised nearly $700 million of new capital, driven by our latest credit opportunities fund, which we refer to as COF III, as well as our insurance-based investment strategies. In addition, as we have discussed in prior quarters, our solutions-driven marketing team is engaged in dialogues with a number of clients around establishing strategic managed accounts, primarily focused on unconstrained credit.

Through these customized accounts, we are able to utilize Apollo's broad range of credit products to address our client's investment objectives beyond traditional fixed income. As an example, subsequent to the third quarter, we closed on a $400-million strategic account with a sovereign wealth fund to invest in US and European credit.

We also remain active in deploying capital in a variety of differentiated investment opportunities across the credit spectrum. For example, during the third quarter, our second European principal finance fund agreed to purchase Evo Bank, which is an 80-branch retail bank in Spain.

We believe this pending transaction will enhance our investment presence in Spain, where our funds have already established a consumer lending platform. This acquisition is an interesting example of the differentiated ways in which our funds can participate in the restructuring of the financial services landscape in Europe.

In addition, this transaction also highlights our flexible investment style, where we can leverage our integrated platform in Europe to complete a wide range of transactions with financial institutions such as acquiring a large pool of assets, or, as in the case of Evo, strategically acquiring whole businesses. The breadth and capabilities within alternative credit is far-reaching, including the corporate securitization market, where we are 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. As an example of our scale in this market, during the third quarter we completed what we believe is the largest cash flow CLO transaction since the global financial crisis, when we refinanced one of the existing leverage facilities held by our funds, through two deals with an aggregate value of nearly

$1.8 billion. Although this transaction did not increase our assets under management, it extended the reinvestment window of the underlying assets by another two years, positioning us to generate increased returns for our fund investors.

Just to touch briefly 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. We remain active in the real estate debt, with our funds deploying $250 million in mezzanine and CMBS investments, in the third quarter, bringing the year-to-date total to $1.6 billion. Within equity, we remain opportunistic across property types and geographies, with approximately 70% of AGRE US fund's base capital committed.

Lastly, I'd like to discuss the dynamics around this quarter's distribution. We declared a cash distribution of $1.01 per share for the third quarter of 2013. This includes contributions from all the components we've discussed on prior earnings calls.

Our regular quarterly distribution of $0.07, carry on interest and dividend income, which was $0.02 in the third quarter, carry on one-time realizations, which totaled $0.84 for the quarter, and lastly this quarter we paid out $0.08 from realized gains on our balance sheet investments. As you may recall, that, since we began reporting the component of our distribution that stems from recurring carry interest and dividend income, this amount has been in the $0.05 to $0.10 range each quarter.

However, as we had noted previously, this component of our quarterly distribution is dependent upon the construction of our overall investment portfolio at any given time, and is subject to change depending upon where we are in the market cycle. Due to our significant realization activity over the past few quarters, we have exited many of the investments that have generated the bulk of our quarterly interest and dividend income, and we do not currently anticipate this component of our quarterly distribution to be as significant going forward.

However, the overall breadth and scale of Apollo's franchise is growing in many ways, which is generating more predictable earnings. As a result of our evolving earnings profile, we are increasing our regular quarterly distribution from $0.07 per share to $0.15 per share beginning in the fourth quarter.

So, on a quarterly basis, going forward, you can expect a $0.15 per share regular cash distribution, plus an aggregate amount related to all other items, including one-time realizations, realized investment income from our balance sheet, and carry on interest and dividend income. As a reminder, Apollo's distribution policy is to pay out quarterly all of the net after-tax cash flow in excess of the amounts determined by management to be necessary to operate our business.

In summary, we delivered strong results in the third quarter driven by solid gains across our investment portfolio. Our value-oriented, opportunistic, and flexible approach to investing has produced a steady stream of realizations and yielded $3.95 of cash per share for our shareholders during the past four quarters.

In addition, we have continued to attract significant amounts of new capital across the Firm, positioning us to capitalize attractive investment opportunities as they present themselves. Lastly, we continue to benefit from the scale of our integrated platform and growing contribution of more predictable earnings.

With that, I'll turn the call over to Martin

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**Martin Kelly** - *Apollo Global Management LLC - CFO*

Thanks, Marc, and good morning, everyone. As you can see from our results this morning, as well as from Marc's commentary, we had a very strong third quarter. I don't plan to go through all of our results, but I do want to take a few minutes to discuss several items that you may have some questions about.

Starting with our Management business, for the third quarter of 2013, Apollo earned $63 million of ENI, versus $89 million in the second quarter. This decline in Management business ENI was due to lower management, and advisory and transaction, fees and increased expenses. The modest sequential decline in our management fees was driven by $3 million of non-recurring fees that we received within our Credit segment during the second quarter.

It is important to note that Fund VIII commenced its investment period on September 1, which added approximately $10 billion to fee-generating AUM. The fee basis mechanics behind the commencement of Fund VIII's investment period and Fund VII's simultaneous step down, resulted in a roughly breakeven financial impact to our third-quarter management fees.

Looking forward, although we cannot provide specific guidance, we expect to see a catch-up in management fees within our private equity segment, upon subsequent closings of Fund VIII, as well as incremental recurring management fees, based on any additional commitments to Fund VIII, subsequent to September 30. However, this increased recurring revenue from Fund VIII will be partially offset, as we continue to exit investments in Funds VI and VII, and reduce the amount of invested capital in these funds.

Advisory and transaction fees were $36 million lower in the third quarter, compared to the second quarter, driven by two primary factors. The second quarter included $23 million of one-time termination payments in connection with the IPOs of several of our private equity funds portfolio companies. In addition, the third quarter reflects wider sequential transaction-based fees, amid a less active deployment backdrop that Marc discussed.

Turning to expenses, third quarter compensation costs were sequentially higher, primarily due to adjustments to year-end accruals, severance, and timing of new hires in support of our continued growth and expansion. These higher compensation expenses were partially offset by lower non-compensation expenses during the third quarter.

In addition, as we have noted in prior quarters, there was approximately $17 million of incentive compensation accrued in the incentive business for the third quarter of 2013, compared to $20 million in the second quarter. In terms of fundraising-related expenses, it's important to note that, while we have raised a considerable amount of capital for Fund VII through the end of the third quarter, we have not yet recognized any significant fund formation costs to date.

One final note on the Management business, other income, in the third quarter, includes a $13-million non-cash non-recurring reduction to the Firm's tax-receivable agreement. The impact of this adjustment is approximately offset within the third quarter's income tax provision.

Turning now to our existing private equity funds, portfolio company investments appreciated by 18% during the third quarter, and 50% over the past 12 months. The favorable investment performance in the third quarter was primarily driven by appreciation of Sprouts Farmers Markets and Athlon Energy, which both completed IPOs during the quarter.

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

As we have done over the last few quarters, we'd like to provide you with a few helpful data points for certain of our larger and newer public holdings at the end of the third quarter. The funds we manage currently hold 9.2 million shares of Evertec in Fund VII; 11.1 million shares of Berry Plastics in Fund V, and 18.7 million shares in Fund VI; 50.9 million shares of Norwegian Cruise Lines in Fund VI; and 22 million shares of Countrywide in Fund VI. Additionally, Fund VI continues to hold 54 million shares of Sprouts, while Fund VII holds 53.8 million shares of Athlon, following their third-quarter IPOs.

Before I conclude my prepared remarks, I'd like to provide some additional information on Athene, and its anticipated financial impact on Apollo Global Management, in conjunction with Athene's recent acquisition of Aviva USA. First, Athene's acquisition of Aviva USA adds approximately $44 billion of incremental AUM to Apollo's credit segment.

On a pro forma basis, Apollo's AUM at September 30, was approximately $157 billion, including more than $100 billion in our credit segment. As Mark noted, 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 Athene Asset Management assumes all costs associated with providing these services, which are folded into our integrated credit platform.

Second, pro forma for the acquisition, the percentage of Athene-related assets invested in Apollo-managed assets was approximately 10% as of September 30, 2013. We expect this percentage to increase gradually over time, provided that we continue to perform successfully in providing asset management services to Athene.

Third, in 2012, Apollo and Athene agreed to terminate a long-term monitoring contract to the end of 2014. As a result, Apollo has been receiving, and will continue to receive, payment of monitoring fees on a quarterly basis through the end of 2014.

This payment, 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 third quarter, this payment was $22 million.

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. Importantly, while this fee is additive to ENI, it is currently being accrued as a non-cash item.

Lastly, as you may have noticed in our press release, our current receivable balance related to AAA and other, increased meaningfully from the second quarter. The sequential change was driven by legacy AAA co-investments on Athene's balance sheet that appreciated materially during the quarter, including Sprouts, for which Apollo receives carry.

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)

Mike Carrier with Bank of America Merrill Lynch.

**Mike Carrier** - *BofA Merrill Lynch - Analyst*

Maybe, first question, just on Athene, thanks for the color. Maybe, two things.

One is when we think about the ratio that you just mentioned in terms of 10%, [AUM] being managed by Apollo, I just wanted to get some color on what types of products can that go into? And then, is there some limit over time, or could it go, over time, to over 50% to 100%?

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

Thanks, Mike. It's hard to know where it will ultimately end up. I think, when you look across our credit platform, the platform has really developed over the last five years.

And so, I would expect that most of the products that are attractive to, would be attractive to any insurance balance sheet And so, it wouldn't be unreasonable to see the growth in the direction that it has been in, which is in highly-rated yield-based investments that will be accretive to the balance sheet of Athene. So, I do think that it will probably look a lot like the existing footprint of our credit business.

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

I just want to mention that there is some additional information about Athene that's posted on the AP Alternative assets website. There is an investor presentation, among other things, with some additional helpful information about Athene.

**Mike Carrier** - *BofA Merrill Lynch - Analyst*

Okay, thanks. And then, just on that business, we think, longer term, when you look of the opportunity that you had with Aviva, can we think about, from an MNA standpoint, more potential activity in this segment, and maybe just meeting dynamics of the industry? Like, why was this so attractive, and then, are the same ingredients still there in this environment?

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

Well, the landscape of the industry is evolving, and so, the way, at least the way I think about it, is that, and we've articulated this before, that it's a spread business. Where do you take on your liabilities, versus where can you invest your assets?

When you asked a question about growth, the real question is can you increase your liabilities? And, there's a number of ways to do that, which we have shown. One is through organic growth, which I think will be a focus of Athene going forward. Secondly is buying blocks of business. And third, is acquiring whole companies. And all of that is predicated upon the ability to redeploy the assets at a spread that gives an interesting ROE. I don't think there's a mandate for growth, but as long as the ROEs are attractive, then I believe there'll be opportunities to continue to grow that business.

**Mike Carrier** - *BofA Merrill Lynch - Analyst*

Okay, thanks, and then, just last one. In the credit segment, it seemed like, I don't know if you want to call it the carried margin, but basically the carried less the cost. It just seemed like, guys, that margin was a little compressed. I didn't know if there was catch up, or if there was something that was more unusual this quarter?

**Martin Kelly** - *Apollo Global Management LLC - CFO*

Yes, sure, Mike. It's associated with an earn-out contracts, with the [Sterndale] business.

And so, from time to time, there is a reassessment of the future expected cash flows coming out those acquired funds and businesses, and the obligation that's on the [EGM's] balance sheet is revalued. And that increase in value, during the third quarter, by about $35 million. And that was attributed to both unexpected longer tenor or duration of the funds, as well as an expected increase in capital rate assumptions out into the future.

**Mike Carrier** - *BofA Merrill Lynch - Analyst*

Okay, all right, thanks guys.

**Operator**

Howard Chen with Credit Suisse.

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

Marc, I appreciate and understand if you do not get fixated on quarterly deployment levels, and you all have really patient capital, but now that 2013 is mostly complete, it looks like [P] deployment will be roughly half of that $3.5 billion to $4 billion range you all have consistently been in for the better part of the last decade. So, just curious if you could just, again, expand on that and talk about how you think the broader environment for deployment? You also noted that the pipeline is getting lot healthier. Thanks.

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

Yes, thanks Howard. I mean this is more like a long-term way we think about the business, that we do go in cycles, realization cycles, deployment cycles, and we set up our platform to be nimble and take advantage of the opportunities that we see, whether it's to deploy, or whether it's to realize. And clearly, and we've said this consistently as an organization over the past year to18 months, that we believe we're in a good realization environment, and it is clearly a less good deployment environment.

But, having said that, things are going to change in the world. There's many reasons for the low-deployment environment. But, if you think over the long span of time, we continue to have high confidence that having quote-unquote dry powder will accrue to the advantage of our funds when those opportunities present themselves. And so, the organization is out there are clearly trying to generate ideas, and as we've said, we've seen a handful of things that look more interesting, and you never know which ones will get across the line, that we do remain confident. And you can go back over the 23-year history, the deployment cycle has always been very lumpy, quarter to quarter, year to year.

And so, we'll see where we'll get to. But, we continue to be confident that we've developed a world-class sourcing and idea generating network, and that will come to fruition over time.

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

Okay, thanks Marc. And my second question, as you build more scale across the sleeves of alternative credit, not only for your business, and hand-in-hand, and hopefully advising more Athene assets over time, how do you think about the pace of investment spending for Apollo? Can you just level-set for us what's done, and what's left to do in terms of building out some of these sleeves you all want to do?

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

Yes, I think it's a really good question. Again, it goes to the structural issue of what's going on in capital markets more broadly, where the increased pressure there are on many financial intermediaries on the balance sheet, is making some of the more specialty, esoteric and liquid parts of the credit market more appealing to us. And so, we've built a lot of our big silos in performing credit in Europe, in mez and distress.

And, we've also started, as you know, over the last year or two, built out more specialty silos, and I think we're going to continue to do that. It's hard to say the bulk of the investment is done, but I feel like we've created a position now of scale, the core business will continue to scale, and we're in credit products where there's significant room to grow.

And, again, I've said this in the past, whether it's real estate mez, or things like residential and consumer lending, where those markets are very large, and we're small players in those markets, where I think that there's incredible scaled to grow. So, in summary, we've built some silos that have opportunities to continue to grow in scale, and then, many other specialty areas that I think that we can add on over the course of time.

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

Thanks. And I just had a last quick numbers question. In the last Athene 10-K, the value of the capital and surplus fee relationship I think was estimated around $370 million. Now that you've closed the Aviva deal, and the operating backdrop has evolved, do you have updated figure for that estimate? Thanks.

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

I don't have an updated estimate, but I would say if you went back to the way Martin talked about the $22 million, which is based upon the C&S fee, on capital and surplus, which has roughly doubled. And, I think we've said in the past that we expect that to occur over eight quarters, I think that you could do some rough math that may get you within the ballpark.

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

Okay, thanks for taking my questions.

**Operator**

(Operator Instructions)

Matt Kelley with Morgan Stanley.

**Matt Kelley** - *Morgan Stanley - Analyst*

Great, thanks. Coming back to Athene, kind of the broader business environment. I think the question was sort of asked, but, I just wanted to ask in a different way, how you see the evolution of the number of blocks of business that are potentially out there for sale? And, can you give us a little bit more color in your conversations with the regulators as Athene is becoming a bigger player in the space now?

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

It's really hard to know how many blocks are for sale, and where we'll ultimately get to. And, the reinsurance industry has, clearly, gone through a big phase of restructuring, there are a lot more eyes focused on it.

So, while I will go back to what I said earlier, I would be reasonably optimistic that there will be things to do going forward. It's just each one of these things are so complex, it's hard to know where we will ultimately get.

**Matt Kelley** - *Morgan Stanley - Analyst*

Okay, just a quick follow-up for me, this one may be more for Martin. But, on the private equity transaction fees, I know last quarter you had a little bit over $20 million in non-recurring from IPOs, this quarter seemed abnormally low relative to where you've been. Just curious, any sort of guidance on a run rate there, outside of IPOs, or what we should be thinking about going into year end?

**Martin Kelly** - *Apollo Global Management LLC - CFO*

I guess the way I think about it is the transaction advisory fees for the quarter of around $29 million included $22 million within the credit segment for the capital and surplus fee, and the balance is standard recurring advisory fees, for the most part, and then a very small amount of fuel-based transaction fees.

If you look at Q2, it had transaction fees, both determination fees related to IPOs, and new deals. So, we are probably at a low point, given the transaction volume, and it's the future trajectory of that is entirely dependent on deal [four].

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

I would also add, and we've said this before on prior calls, that if you look at the funding agreement, one of the terms we talked about was the 100% fee offset on transaction fees. So, I would just note that, that's something to keep in mind going forward.

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**Matt Kelley** - *Morgan Stanley - Analyst*

Okay, great, thanks guys.

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**Operator**

Kenneth Worthington with JPMorgan.

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**Kenneth Worthington** - *JPMorgan - Analyst*

Thank you, good morning. Apollo had taken the position, earlier in the year, of selling everything that wasn't nailed down, it sort of made its way around the financial press. Your comments this quarter seem to highlight realizations more opportunistically. So, is either the Apollo investment team our management team more sanguine about the outlook for the market, and should we read into this any impact on the pace of realizations?

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

Thanks for the question, Ken. No, I would say, no, that each investment is evaluated on its own merits. The now famous comments from last year really were highlighting our view that with good equity markets, the capital markets window was open, relatively attractive financing markets, even though rates are higher, that is a good environment to realize.

And, you can obviously see that we continue to believe that. But that really ultimately, then, has to be supported by each investment on its own.

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

Okay, and just a follow-up on that. At quarter end, 73% of the gross fair value of our investments was, essentially, publicly traded and was reliant upon either a broker quote or a public mark in the equity markets. And, breaking that down, 62% of our private equity fair value is based on public quotes, 86% of credit, and 50% of real estate. So, clearly a large part of the portfolio is already in the public domain in terms of marks and access to the public markets.

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**Kenneth Worthington** - *JPMorgan - Analyst*

That's great, thanks. And then, with AAA. So, the NAV is going to increase substantially with Aviva. Can you walk us through, in terms of the management fee, and carry that resulted from the step up?

I assume the management fee is fairly straightforward, the carried seems to have some controversy around it. Any chance that you can walk us through the implications on the carried that APO could get on the step up?

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

I'm not sure that it's related to the step up--

**Kenneth Worthington** - *JPMorgan - Analyst*

Okay.

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

--that you're talking about. And, I think I understand what you're talking about, the carry is related to the value of the underlying assets. Not related to the NAV of AAA. So, as Martin had talked about in his script, that the increase in carried receivables was due to the fact that the underlying assets, themselves, increased in value during the quarter.

**Kenneth Worthington** - *JPMorgan - Analyst*

Okay, does that imply that the meaningful step up in NAV isn't going to translate into significant carry? It's just the underlying performance really drives the carried, not the AUM? Maybe this is worth taking off-line, but I thought I'd get it out there.

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

Yes, just, again, to reiterate. If it's the carried that I think you're talking about, which is in our disclosure that it's AAA and other, I think is the category, those are related to specific assets that moved up in value, and not related to the NAV of AAA.

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

I'll direct you to page 20 of the press release, the carried receivables table. We did add some additional details around AAA and other receivable. And, in a footnote, explicitly described the portion that's related to Athene, which I think is what you're asking. At September 30, $82 million was related to Athene.

**Kenneth Worthington** - *JPMorgan - Analyst*

Yes, I was figuring since the deal closed after September 30, that's why I brought it up. But, thank you very much.

**Operator**

Bill Katz with Citigroup.

**Bill Katz** - *Citigroup - Analyst*

Thank you so much. You mentioned you had another nice win in the strategic mandate with the sovereign wealth fund. I was just wondering if you could size the pipeline behind that, what you might see out there.

And an unrelated question is, I think you looked at this with a little bit of skepticism or cautiousness. Any updated thoughts on tapping to a retail sort of a 1940-app type product set? Thank you.

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

Yep, thanks Bill. Size in the pipeline is hard, it's more part of the structural shift that we've talked about, which is, it's generally referred to as increasing allocation to alternatives, but part of that is really increasing allocations to unconstrained credit. And, I think I described earlier on the call, the robust multi-asset credit platform that we currently have.

And, there is fairly good dialog, ongoing dialog, about how to create good risk rewards in the credit space for many of our LTs. That dialog is interesting, and we've continued to highlight that over time, as what we think as a real growth opportunity for the Firm, and real investment opportunities for our LTs.

I would say on your second question, retail gets a lot of focus, and we are very focused on it. The same dynamic that's happening in the institutional market, which is search revealed, and search for things that will be accretive to the discount on your liability that individuals have the same issue that institutions have. And that's why the asset management industry, and in particular, alternative asset managers, are focused on creating product that is suitable for retail, which we are focused on. And, over time it has grown. There's a lot a difference in the language that people use, the way that we think about, is really twofold.

One is that we have created closed-end funds, and we've talked about it on prior calls, in some of the larger funds that we have launched whether it be EPF I or II, and our private equity funds, there are high net worth individuals and others that invest in the funds. And, so we've been retail, and I do think that's an area that will continue to grow, and we will continue to focus on.

The other area that we focus on, we also talk about often on this call, is permanent capital vehicles, which is slightly different, but in the end of the day, there is a lot of retail money that accesses more sophisticated strategies through mortgage reads, and commercial reads and things like that. And that's been a growing area for us as well. And, when you add all of that up, it has become an interesting part of our overall AUM.

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**Bill Katz** - *Citigroup - Analyst*

Okay, thanks for taking my questions.

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**Operator**

Robert Lee with KBW.

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**Robert Lee** - *KBW - Analyst*

I'm just curious, maybe in looking at Fund VIII, clearly capital ratings have been going very well. Two questions with that. Number 1, I'm just curious of the $12 billion committed to date, did that include insiders and employees commitments or is that all third-party?

And that, what's your ultimate goal for this fund? I mean, where you feel like you need to cap it out?

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

We haven't given any construction of the $12 billion, and it's very hard to know where we're ultimately going to get to. I did highlight, in my script, that things were going well. We've talked about, in the past, that LPs are going to reward managers who have had good performance, and we think we're in that category. But, at this point, it's very hard to say where we will ultimately get to.

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**Robert Lee** - *KBW - Analyst*

Okay, Martin, just looking quarter to date, obviously you've had the large Lyondell follow on, and some other things out there. Any incremental update on where we stand quarter to date, and what that all translates into, what's in the house so far, in terms of a distribution from realizations or whatnot? And where we're sitting right now?

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**Martin Kelly** - *Apollo Global Management LLC - CFO*

Yes, sure. To date, based on completed closed transactions from private equity, we are at $0.19 per share. And that, predominantly includes the Lyondell secondary.

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**Robert Lee** - *KBW - Analyst*

Great, that was it. Thanks for taking my questions.

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**Operator**

Chris Harris with Wells Fargo Securities.

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

Thanks, guys. Really just one question, the bank acquisition you guys have recently done in Spain, you talked about it in your prepared remarks, it sounds really interesting. I was wondering if you could just comment a little bit more on more whether there's a lot more deals like this to be had in Europe, given some of the restructuring that needs to happen there? And, maybe whether there are a lot of other players, like yourself, trying to capitalize in similar situations?

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

I mean it's a great question because we've said many times that the landscape in Europe is changing. It's hard to know where we are in that, but it's a very, very long-term opportunity that's probably at the beginning phases.

So, it would stand to reason that there are more opportunities, but I'll give you the two sides of the coin. On the one side, these transactions are really complex and very hard to do, and so, therefore, it's hard to predict that lots will get done with these.

On the other side of the coin, there is a lot to do in Europe. And we think that we are very well positioned because we have built a franchise that is growing, we have an experienced team on the ground with a track record through what the funds have done in other acquisitions, have built a servicing platform that we think is becoming more unique in nature and a competitive advantage. So, if it goes in the direction that we believe, which is ongoing restructuring, that we think that Apollo has positioned itself extremely well to take advantage of these kinds of opportunities.

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**Operator**

Marc Irizarry with Goldman Sachs.

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

Okay, thanks, hi everybody. Just in terms of the change in your distribution policy, I was hoping to get a little more color around the thinking about the big step function higher in the fixed component of it. Specifically, when you think about the jump that you have in the size of the fixed distribution, what sort of fund raising expectations are embedded in that?

I guess you can ask why not more if you just think about the expected run rate of your management fee business as you bring on Athene, and then Fund VIII? Maybe it's a little lower, or it could be a little higher relative to the fee-related earnings management fees coming in. Maybe, you could give us some color on that?

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

Yes, look, it's a good question, and suffice it to say that we've spent a lot of time trying to figuring out what we believe was the appropriate place to end up. And many of those factors that you cited were part of the consideration.

I'm not going to go into the specifics, other than to say that we, obviously, took this very seriously. We think this is an important step forward for our overall franchise, and made this decision very carefully, and we think we ended up in a very good place.

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

Yes, just to reemphasize the distribution policy, the $0.15 regular distribution you can expect every quarter. But, as Mark said, our distribution policy is such that we do have cash available, but for the amounts management holds back in order to run the business each quarter.

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

Okay, great. And just in private equity, Marc, I think you mentioned maybe there's some fund formation costs that are going to come in through the P&L that aren't there yet? I don't know if you guys can address this specifically, but the fundraising for Fund VIII. I don't know if you could talk about what the target size might be, and maybe how those costs affected by how big that fund might ultimately prove to be?

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**Martin Kelly** - *Apollo Global Management LLC - CFO*

Hey, Mike. It's really hard to do that because we can't talk about the size of the fund, and the associated costs depend on a couple of variables, which placement agents we use, their different fee structures in place. There's a range around capital that might come in from each of those agents, and there's a question around timing of the closings. So, it's hard for us to predict, and therefore it's hard to provide guidance around that.

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

Okay, great, thanks.

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**Operator**

Brennan Hawkin with UBS.

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**Brennan Hawkin** - *UBS - Analyst*

Question on the FA market. Did you guys see any change in blocks that are for sale in the market, back when rates started to back up in 2Q? Is there enough business that's out for bid that you could see whether or not there's been any kind of a shift now that people start to believe that we're within reach of a taper of some point?

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

Honestly, I'm not sure I know the best answer to that question. I don't believe we've seen a big change. And, partly, it's because I think a lot of these transactions take a really long time to do, and they're related to corporate strategy as opposed to necessarily specific market focus at the time.

So, they may be slightly less of a relationship there than you would think, but, ultimately, they are related. So, I'm not sure that I've seen a shift in it, but maybe.

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**Brennan Hawkin** - *UBS - Analyst*

Okay. And then, a follow-up on Marc's question, or a question on the distribution change there. It seemed, I think you guys indicated that there is less income coming from some of the holdings, and what have you.

And so, I think some may read into that, thinking that maybe we're closer to the end of the harvest mode that you guys have been in or maybe we're beginning to wind down in the harvest mode. Is that the right conclusion to come to when we think about the change in the distribution policy?

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

Well, let's just give you one way, a framework for thinking about it, and then you can come to your own conclusion. Martin's gone through this a couple of times in the past. And I would just say, on the first part of the question, is that when you look at the construction of the portfolio, especially given the investments that were made at the bottom of the cycle, so you could see things like exiting our positions in Lyondell and Charter is going to affect what we used to refer to as the second bucket, which is interest and dividends from the portfolio, and that's position-related.

The second part, which is really important, if you just, Gary, I'm not sure what page it is, but if you just refer to the fair value on the ground of the PE portfolio on page 19. You can look at what we have said each quarter in terms of the total size of realizations in PE by quarter, look at the fair value, and then you can make an assumption as to whether you think that fair value will appreciate, at what rate, and whether or not we'll put new capital into the ground. And what the average rate of realization will be over forward quarters. And then you can come up with a framework, and all of the math would suggest that there are still numbers of years left. And, again, that could change. We could realize slower, we could realize faster. But, if you come up with a framework it will suggest that there's still a numbers of years.

The other thing that I'll point to, which we are quite proud of, is if you look at the AUM dynamic, in general there are three big moving parts. One is additional capital raised, the second is change in fair value, and the third is distribution. And, in an environment where over the past 12 months we've distributed $22 billion, and the AUM has ended up at around the same place, and the fair value has ended up at the same place, that we continue to, I believe, show that we are, for the parts of the franchise that run off, we are continuing to rebuild. And that really shows the dynamic nature of our organization.

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**Brennan Hawkin** - *UBS - Analyst*

Okay, thanks for taking the questions.

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**Operator**

Patrick Davitt with Autonomous.

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**Patrick Davitt** - *Autonomous Research LLP - Analyst*

I have one quick one more on the organic growth side. Is there a regular pace of organic growth that we can think about there? Because, I imagine there is a rather consistent pace of new policy origination and money going into old policies?

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

I don't have an answer to that. As Gary did refer you to the materials that are put out, I'm not even sure if they say number.

But I would say that, as you can imagine, in the ongoing operational consolidation of the businesses that we have put together, there is an organic distribution platform. And, I think part of what is being said by Athene, which seems quite rational, which is there's not a mandate for growth, but to grow when it is sensible to grow based upon where you take on liabilities versus where you could deploy assets. And, I believe that Athene will be quite rational in terms of where it prices its liabilities as a function of where the assets are. And so, as long as that overall spread leading into essential ROE is out there, then there's opportunities to continue to grow organically.

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

I would just add with the completion of the Aviva transaction, Athene is one of the leaders in the US fixed annuity business. And clearly, together with Aviva, really poised for material growth in retail. And, again, as Marc said, we refer you to the Athene information on the AP alternative assets website, which does provide a little bit of detail about the growth strategy for Athene.

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**Patrick Davitt** - *Autonomous Research LLP - Analyst*

Okay, thanks a lot.

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**Operator**

Bulent Ozcan with RBC.

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**Bulent Ozcan** - *RBC Capital Markets - Analyst*

I have a question on Athene. I just want to get a better understanding of the return on equity, and which figure to use of the comparable? It sounded like the new targets will be around 15% to 20% for ROE? Should I be comparing that to the 40% number that was disclosed versus the 27% that was reported in 2012?

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

No, I think the target has not changed. I think the ROE for Athene has always been in the mid- to high-teens. So, I don't think anything has changed there.

Again, I'd refer you to the Athene information on the AAA website, and also there will be a replay of that call available on the AAA website later today. There was a discussion around ROE, with respect to Athene, again mid- to high-teens, to the extent there was outsized ROE in the third quarter, was due to some partnership investments in particular. So again, but I think that the mid- to high-teens target has always been the case, and continues to be a solid return range.

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**Bulent Ozcan** - *RBC Capital Markets - Analyst*

Okay. And in terms of the growth, it sounds almost like the growth from here on will be organic. Is that the right read into the discussion this morning? While there are some opportunities out there, I came away with thinking that you are right now more focused on making sure that there's enough capital there to grow the business organically? Would you have any additional comments, any additional color, for this?

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

No, I think we have given you a road map on that.

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

But, just to drive home the point that is Athene remains very well capitalized, and is focused clearly on integrating the Aviva business into Athene. And focused on building out the growth of the business going forward.

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**Bulent Ozcan** - *RBC Capital Markets - Analyst*

Okay, that's great. Thank you much for taking my questions.

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**Operator**

That was our final question. Ladies and gentlemen, I will now turn the conference back over to Mr. Gary Stein for closing remarks.

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

Great, thanks very much. Thanks, everyone, for joining today. As we said earlier, if you have any follow-up questions please feel free to reach out to Noah Gunn or myself. Thanks very much.

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**Operator**

Thank you ladies and gentlemen, this does conclude today's conference call. You may now disconnect your lines.

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