S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

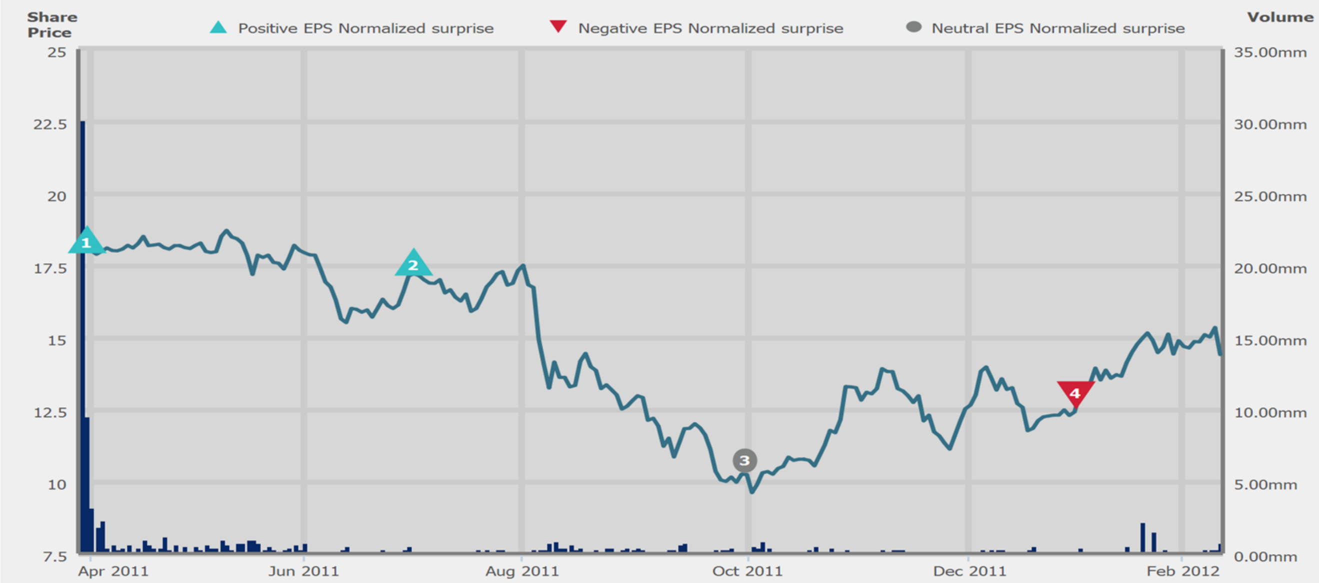
FQ1 2012 Earnings Call Transcripts

Tuesday, May 08, 2012 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	1.10	▲39.24	0.49	2.51	2.79
Revenue (mm)	630.00	776.74	▲23.29	391.83	2183.25	2559.49

Currency: USD
Consensus as of May-08-2012 2:51 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.78	1.10	▲1 41.03 %
FQ2 2011	0.37	1.15	▲2 210.81 %
FQ3 2011	(0.67)	(1.46)	NM
FQ4 2011	1.42	0.80	▼3 (43.66 %)

Call Participants

EXECUTIVES

Eugene Donnelly
Senior Adviser

Gary M. Stein
Head of Corporate Communications

Marc Adam Spilker
Former Senior Advisor

ANALYSTS

Alex Kramm
UBS Investment Bank, Research Division

Jacob Troutman
Keefe, Bruyette, & Woods, Inc., Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Marc S. Irizarry
Goldman Sachs Group Inc., Research Division

Michael Roger Carrier
Deutsche Bank AG, Research Division

Presentation

Operator

Good morning, and welcome to Apollo Global Management First Quarter 2012 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 M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo Global Management are Marc Spilker, President; and Gene Donnelly, Chief Financial Officer.

Earlier this morning, Apollo reported GAAP net income per basic and diluted Class A share of $0.66 for the first quarter ended March 31, 2012 compared to $0.33 per share for the first quarter ended March 31, 2011. For our combined segment results, we also reported non-GAAP after-tax economic net income of $1.10 per share for the first quarter of 2012 compared to $0.99 for the first quarter ended March 31, 2011.

Total assets under management, or AUM, was $86 billion as of the end of March and fee-generating AUM was $60 billion. Following the recent closing of the Stone Tower acquisition in April, our total AUM on a pro forma basis is now $105 billion, which represents a 50% increase in total AUM since our initial public offering last year. Furthermore, subsequent to the acquisition of Stone Tower, capital markets is now Apollo's largest business segment with over $55 billion of assets under management.

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

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

We will also be discussing certain non-GAAP measures on this call such as economic net income and after-tax economic 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 first quarter earnings press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. Please also refer to our most recent Form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to 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 Patrick Parmentier or me after this call.

With that, I'd like to turn the call over to Marc Spilker, President of Apollo Global Management.

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary. And welcome, again, everyone, to our 2012 first quarter earnings call. We're very pleased with our financial results this quarter on top of many other meaningful accomplishments that we'll be covering on this call. This morning, I'd like to touch on a few topics including: Our current views on the market environment; completion of the Stone Tower acquisition; updates on the private equity, capital markets and real estate businesses; fund raising; and lastly, a topic that has gotten some attention recently, the managing partner's employment agreements.

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

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

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

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

While significant monetization events from the sale of portfolio companies and large credit positions can be more sporadic, the equity and credit positions in both the private equity and capital market funds that we manage have provided a consistent stream of interest and dividend income that we're also able to convert into a meaningful portion of the realized carry that's passed on to shareholders. Later on the call, I'll touch on more specifics around recent monetizations and capital deployment activity.

In early April, we announced the completion of the acquisition of Stone Tower Capital, a leading alternative credit manager with approximately $19 billion of assets under management at the end of March. As Gary mentioned earlier, this brings our total AUM on a pro forma basis to more than $100 billion for the first time in Apollo's 22-year history, a significant milestone that we're very proud of.

The acquisition reinforces our positioning as one of the world's leading and most diverse credit managers, adding significant scale and several new credit product capabilities to our platform, including high-yield bonds and long/short credit products in addition to an expanded investor base.

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

Turning now to our Private Equity funds and their underlying investments. Overall valuations were up during the first quarter, appreciating on a combined basis of approximately 16%. The overall financial performance of our funds portfolio companies improved during the first quarter.

Aggregate revenues of our Fund VI and Fund VII portfolio companies grew sequentially by an estimated 2% during the first quarter of 2012 compared to the fourth quarter of 2011, while EBITDA increased an estimated 20% on the same sequential basis.

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

Fund VI generated some realized carry during this quarter as of March 31, and was delivering a 10% gross and 9% net IRR since its inception in 2006. The total fair value of Fund VI investment portfolio was $10.8 billion as of the end of March, up 16% from $9.3 billion at the end of 2011.

I want to highlight this performance considering that Fund VI is a vintage fund that deployed the majority of its capital in 2006 and 2007 before the ensuing financial crisis. Gene will provide more specific details surrounding Fund VI impact to our first quarter results later in the call.

At the end of the quarter, Fund VII was generating a 35% gross and 25% net annual IRR since its inception in 2008. Total fair value of Fund VII investment portfolio was $12.1 billion as of March 31, 2012, up from $9.8 billion at the end of 2011.

Moving on to realization activity within private equity. Our private equity funds continue to selectively monetize gains. As mentioned in my opening remarks, the current environment appears to be confirming the view that we're facing an uneven economic recovery, yet we've been able to demonstrate the ability to realize carry during the last 12 months while equity and credit markets fluctuated more broadly. During the first quarter of 2012, Fund VI sold a portion of its Noranda investment, and Fund VI and VII were able to sell certain credit investments.

Looking ahead, the realization cycle remains a focus for our deal teams. And barring any significant changes in the economic environment or sentiment, we are cautiously optimistic for the remainder of 2012 and beyond.

One of the monetization tools that we've been able to use in the current environment is dividend recaps and other forms of capital structure optimization. For example, tomorrow, we expect to complete a dividend recapitalization for EVERTEC, one of our Fund VII portfolio company investments that was acquired in 2010. Six portfolio companies of the funds we manage now have registration statements on file for possible future IPOs. In addition, 2 of our larger portfolio companies, Caesars and Rexnord, successfully completed IPOs this year.

Our funds did not sell shares in these IPOs, however, both of these offerings have subsequently traded well in the secondary market. Finally, dialogues with strategic buyers also continue, and we believe the current environment is healthy for those types of transactions since many strategic buyers continue to have large amounts of cash in their balance sheet. Furthermore, the acquisition of an efficiently managed target company can provide a strategic buyer with additional growth catalyst in a market environment where growth can otherwise be inherently slow.

Regarding capital deployment within private equity, consistent with our value-oriented contrarian approach, we continue to find differentiated investment opportunities and our funds have put capital to work on a consistent pace over the past few quarters.

During the first quarter, Fund VII invested approximately $1 billion, including $450 million for the Taminco acquisition and over $500 million in several potential distressed opportunities.

Funds managed by Apollo and a group of investors call, including Riverstone Holdings and Access Industries, previously announced an agreement to purchase the oil and gas exploration and production assets of El Paso Corporation for just over $7 billion.

Both Fund VII and our natural resources fund are participating in the sizable transaction, which is subject to the closing of the merger between Kinder Morgan and El Paso and other customary closing conditions.

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

Looking out our capital markets business. We believe that Europe remains an area full of long-term investment opportunities and a big focus for our capital markets team, where we are continuing to expand our investment capabilities and grow our presence on the ground.

Our primary European mezzanine credit and nonperforming loan funds continue to generate strong risk adjusted returns since their inception. Recent mandates from 2 strategic investment accounts totaling over $1 billion are also beginning to deploy capital in European credit investment opportunities.

Our first European nonperforming loan fund, which referred to as EPF I continues to make new investments. And during the first quarter of 2012, EPF I announced the acquisition of the Irish consumer credit card portfolio of Bank of America Europe Card Services, which includes more than 200,000 customer accounts.

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

Historically, traditional bank loans in Europe comprise a much larger percent of total corporate lending relative to United States. However, given deleveraging, current loan activity in Europe has slowed materially in order to shore up bank balance sheets.

Apollo is able to act as a solution provider in 2 distinct ways: Additional supply for loan demand via our European credit fund and other pools of capital such as managed accounts and purchasing noncore assets from banks via our nonperforming loan platform. We believe that our advantages in Europe, including having a well-established presence in select countries, where we are seen as good partners for sellers, and believe there is a significant opportunity for us considering our successful track record, the long-dated capital to deploy and the servicing platforms that continue to be built and of course, our team.

We believe that the secular changes taking place in Europe are still in the early stages, but we are well positioned to capitalize on what we believe is a structural long-term investment opportunity that will take a number of years to play out.

Finally, I'd also like to mention that we continue to grow our position as a leading player in the senior credits markets, which is the largest component of our capital markets business. During the first quarter, we issued a new CLO totaling $437 million, and following the acquisition of Stone tower and Gulf Stream, we now manage 25 CLOs and one of the largest CLO managers in the United States.

Our Real Estate segment has more than $8 billion of assets under management as of the end of March and will remain active in the world through a variety of real estate investment vehicles. For example, during the first quarter, our U.S. real estate opportunity fund completed the acquisition of the Novotel New York, Times Square hotel in partnership with Chartres Lodging Group. Our debt-oriented real estate funds and investment vehicles continue to target real estate-related loans and securities in the United States, including opportunities in mezzanine loans and both commercial and residential mortgage-backed securities.

We are also actively deploying capital from our strategic investment account into debt-oriented real estate investments. During the first quarter, we also deployed capital in Europe in connection with our partnership with Ivanhoe Cambridge and Residential Land, whereby we're targeting the London multifamily residential market, and through which we've recently acquired 4 high-quality prime London assets.

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

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

Subsequent to the end of the first quarter, we held the final close for our first U.S. real estate opportunity fund or more formally referred to as AGRE U.S. Real Estate Fund, bringing its total potential commitments to over $700 million.

Finally, I would like to discuss our managing partners' employment agreements that are expiring this July. Apollo is led, of course, by our managing partners, Leon Black, Josh Harris and Marc Rowan. We each entered into 5-year employment agreements in connection with the private offering transactions that took place in 2007. These agreements were signed at the time of Apollo's reorganization into its currently publicly traded partnership structure.

Leon, Marc and Josh have been and are completely focused on and engaged in the business and our expectation is that they will continue to be going forward. It's also worth noting that the 3 of them collectively own approximately 55% of our Apollo's fully diluted shares. And as we have been saying, their interests are aligned with shareholders and their primary focus is to grow long-term shareholder value.

Our dialogue has centered around 2 key topics. First, given their active, ongoing involvement with the firm, are employment contracts necessary? And secondly, whether incremental compensation should be considered.

Our thought process in addressing this latter point will be guided by 2 fundamental principles. One is to maintain the strong alignment of interest with shareholders. And the second is that any incremental compensation should generally be in the form of restricted equity.

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

With that, I'll turn things over to Gene.

Eugene Donnelly
Senior Adviser

Good morning, everybody. I'm going to cover 5 years before we move to your questions. The 5 areas are: The quarterly distribution and the related outlook for the balance of the year, the performance of our management and incentive businesses, total AUM and fee-generating AUM, the financial impact of the Stone Tower acquisition and finally, some key amounts from our balance sheet.

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

I'd like to repeat the guidance that we provided on our last earnings call as it relates to quarterly distributions. It's difficult for us to predict the timing of future realizations and their resulting impact on future declared amounts. But as we continue to analyze the business in 2012, and the more stable portion of our realized carry, we think it's reasonable to expect a base distribution of $0.07 and another $0.05 to $0.10 from the recurring interest and dividend income generated by our funds and that's based on the current market environment and the composition of our investment portfolio.

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

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

Compensation expense in the management business increased from $66 million in the fourth quarter of 2011 to $84 million in the first quarter of 2012 and was impacted by the higher headcount and compensation expenses in our capital markets segment. There was also $21 million of incentive pool compensation in the first quarter of 2012 that was recorded as profit-sharing expense, which was consistent with the $21 million of incentive pool compensation in the fourth quarter of 2011. As a reminder, amounts determined under our incentive pool arrangement contain both a fixed and discretionary component and may vary quarter-to-quarter depending upon the overall realized performance of Apollo and the contributions and performance of each participant.

Noncompensation expenses were $53 million during the quarter compared to $65 million during the fourth quarter of 2011, which was largely driven by lower professional fees. During the fourth quarter of 2011, we also experienced higher legal and consulting expenses, including amounts related to nonrecurring events, such as the Gulf Stream and Stone Tower transactions.

Other income in our management business improved slightly, which was benefited by approximately $3 million in foreign exchange gains. The U.S. dollar is the functional currency for most of our international locations, and strengthening of the euro and pound sterling relative to the U.S. dollar during the first quarter drove the majority of these gains.

I'd like to now turn to our incentive business, where we report a more variable financial results, including carried interest income and profit-sharing expense. Our private equity segment generated $448 million of total carried interest income during the first quarter. Of this amount, Fund VI carry includes approximately $90 million of realized carry and $34 million of unrealized carry, which was driven by the combined appreciation of the underlying Fund VI investments and was broad-based across multiple equity and debt holdings, including our investments in CEVA Logistics, Lyondell, Noranda Aluminum, Norwegian Cruise Lines, Realogy and Rexnord.

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

As of March 31, 2012, an additional $85 million of fund appreciation, that's less than 1% of the current fair value of Fund VI investments, is needed to fully reverse the remaining $41 million general partner obligation. After which, we estimate that the next $873 million of appreciation in Fund VI will result in our earning unrealized carry on an 80-20 catch-up basis, whereby each additional $1 of appreciation results in $0.80 of unrealized carry.

Turning to Fund VII. Total carried interest income from our most recent private equity fund includes approximately $25 million of realized carry and $288 million of unrealized carry. After adjusting for purchases and sales, Fund VII appreciated by approximately 15% during the quarter, which was driven by investments in Lyondell, Charter and certain of our distressed credit positions.

The appreciation in both Fund VII and Fund VI was driven in part by our significant equity position in Lyondell, which appreciated 34% during the first quarter. As of March 31, 2012, Apollo entities held a combined 171 million shares of Lyondell, which includes approximately 106 million shares held by Fund VII, 20 million shares held by Fund VI and the balance held across 4 of our other funds.

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

Our incentive business results also include the unrealized gains and losses generated by our balance sheet investments, which appreciated during the first quarter resulting in approximately $52 million of additional income.

Apollo's total AUM as of March 31, 2012, was $86 billion, which excludes $19 billion from the Stone Tower acquisition that closed in April. During the first quarter of 2012, we added $3 billion of AUM from TRS and $600 million for the new strategic managed account that was discussed earlier.

In addition to these amounts, there was another $400 million of newly raised AUM across other capital markets funds and investment vehicles, and more than $300 million was raised in our private equity-style real estate funds.

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

As mentioned earlier, we recently closed on an additional $947 million of commitments to EPF II, which will flow into our AUM during the second quarter, bringing total amounts raised to date for EPF II to approximately $1.5 billion through the end of April.

It's important to note that in connection with the significant amount of capital recently raised for EPF II and based on commitments to date, we do expect to incur additional placement fees of approximately $13 million in the second quarter.

A few words on the Stone Power acquisition, which was finalized for total cash consideration of approximately $120 million and future payments that are continued upon whether incentive revenue targets are met. As Marc mentioned earlier, the integration of the Stone Tower is well underway within our capital markets group. As of March 31, 2012, Stone Tower had approximately $18.7 billion and $16.4 billion of total and fee-generating AUM, respectively. Approximately $5.1 billion of fee-generating AUM is expected to run off over the next 12 to 18 months. Stone Tower's weighted average management fee is approximately 50 bps.

We anticipate that our management business results will be impacted for the remainder of the year by approximately $12 million in one-time integration cost. However, when you include the incentive business, we expect the acquisition to be ultimately accretive to Apollo in both 2012 and beyond.

Our management fee revenue as a percentage of average fee generating AUM is trending lower as we continue to grow in capital markets and in particular add CLO investments to our senior credit portfolio, as well as additional assets added to the Athene platform that are not directly managed through other Apollo funds and investment vehicles.

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

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Ken Worthington with JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Eugene Donnelly
Senior Adviser

Ken, this is Gene. I'm happy to take that up offline. There's a lot of complexity there. But on a very simplified basis, once we cross that 8% threshold, as a general rule, we're in that 80-20 accelerated catch-up distribution. So there [indiscernible] technicalities here and we're happy to take them up offline.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Gary M. Stein
Head of Corporate Communications

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Marc Adam Spilker
Former Senior Advisor

Kenneth, I would say it's hard to predict. The 2 constraints are obviously the capital base associated with Athene and the capital investment opportunities. And so just playing those 2 things off versus each other, they've built a very nice portfolio. And I guess my sense is that there's growth on a go-forward basis but it's very hard to predict the size of it.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Marc Adam Spilker

Former Senior Advisor

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Marc Adam Spilker
Former Senior Advisor

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

Operator

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

Marc S. Irizarry
Goldman Sachs Group Inc., Research Division

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

Marc Adam Spilker
Former Senior Advisor

Yes. So traction is really what we've been talking about, which is natural resources and Europe. And so we continue to highlight those as our 2 largest opportunities. And you can see that both in the dialogue with LPs, the funds that we're raising and growing out our teams. On the strategic accounts, we have obviously had a lot of success in the last 6 or 8 months. We started talking about this 1 year or 18 months ago. And so I'll say 2 things about those. One is that we continue to see opportunities to enter into partnerships at the strategic level. But where we are now is having raised a lot of money, very focused on investing it, investing it well. So I think the pace of that has slowed a little bit. And obviously, you see some of the names of the people that we've done it with and you see some of the sizes. And it's hard to imagine that we're at a sustainable pace. So my expectation is that will slow, which is fine because we want to make sure that we consolidate the money and we manage it well. And then on the LP base, it's rounding out and we still certainly have some work to do over the next handful of years of growing our footprint in Europe and Asia. But if you look back say, 5, 6 years ago versus where we are now, it was probably 80/20. And it's probably now closer to 60/40 in terms of U.S. versus international. So I think we've made quite good progress there. And I say the good news is that our U.S. -- the business is growing and our international business is growing, but the international business is growing slightly quicker.

Marc S. Irizarry
Goldman Sachs Group Inc., Research Division

And then just in terms of the new agreement with the -- the new founders' agreement. When -- I might have missed this, but when do you think the -- you'll have something sort of on the table in terms of resolution of this?

Marc Adam Spilker
Former Senior Advisor

Well, I'm just going to refer back to what I said, which is to really point to -- a dialogue is obviously underway but what's more important are the guiding principles, which is to continue the alignment of interest. And the -- any additional compensation, should it come, would be in the form of equity and I left my opening remarks there specifically. And so I can't say eminently when I would be able to come back with something. But I just want to reiterate, which I think is the most important point, which is Marc, Josh and Leon come to the office everyday. They're working as they always have been and that's our expectation. And I think that, that's really the most important element.

Marc S. Irizarry
Goldman Sachs Group Inc., Research Division

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

Eugene Donnelly
Senior Adviser

Well, Marc, as we commented, there's been a downward trend in the revenue yield at the management company on new AUM and that it makes sense given that a significant part of the AUM growth has been in capital markets. And the market rates for management fees are lower than our historic averages. As we look at our capital raised for the balance of the year, EPS has a very healthy management fee rate, more like 1.75% management fee. So as that money starts to come in, we should see a slight uptick. But that has to be balanced-out with the significant growth in AUM that we've realized to date through the Gulf Stream and Stone Tower acquisitions, which were largely comprised of CLOs, which as you know, have a 35-, 40-bp average management fee.

Marc S. Irizarry
Goldman Sachs Group Inc., Research Division

I'm sorry, if I could just ask the question a little bit different way, when you look at the expense base of the business right now, it looks like some of the line items in G&A occupancy are sort of flat to down somewhat. So is there just inherently some lag? Are you seeing -- should you see even a little lower fee rates, should you see some operating leverage there over some of the fixed costs?

Eugene Donnelly
Senior Adviser

I think you are exactly right. You are seeing that. And I commented in my prepared remarks that we are generating leverage and efficiencies, economies of scale taking advantage of the platform that's been built. I think it's important to note that with the additional capital markets AUM, that's a more complex group of AUM than say, a large private equity fund. And so the cost to administer, all things being equal, back office, middle office, are higher. So there's been a tremendous successful transition over the last 2 years in the platform to allow us to leverage on a cost-effective basis the substantial AUM growth in Capital Markets given the lower fees.

Operator

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

Michael Roger Carrier
Deutsche Bank AG, Research Division

Just on the fundraising side. So you've been pretty active both on the core products and then also on the deal front. But when we look out for the remainder of this year, if we look at nat resources, [indiscernible], real estate, the EPF II, besides that, anything else on the credit side? I guess you could have more CLOs. But just anything in addition to what you've already done over the past 6 to 12 months? Because it seems like a lot of the products are -- you've already raised the capital. Now it's going to be focused on putting it to work, but just want to make sure I'm not missing anything.

Marc Adam Spilker
Former Senior Advisor

Yes, I would frame it as we have opportunity funds and yield funds. And what we're undertaking in our capital markets business is to create a platform where we have open-for-sale products every day. And so when you look at the senior loan business and when you look at the European platform that we're building, the way I have framed Europe, this is a long-term secular opportunity. We're trying to build a business where there are going to be many credit opportunities and I think that that's a place that we'll have ongoing fundraising potentials. And then the senior loan business, we're one of the largest in the industry. And as we build out the platform -- Gene talked about one side of it. The other side is that with the acquisitions we've made and our organic build, we're building a pretty diverse platform with a lot of investment capabilities and there will be many opportunities there. And then on the real estate debt side, that's another place where we see ongoing opportunities to raise money, particularly in separate account form. So we think there's a healthy mix of the kinds of things we've been talking about with the changing business mix of the organization.

Michael Roger Carrier
Deutsche Bank AG, Research Division

Okay, that's helpful. Then maybe just on the capital markets business. It looks like the ENI is a bit light and so -- and I'm just saying on the management part of the business. So when you start to scale up some of those businesses, should we see that expand? Because it's a little bit, I'd say, blurry right now because of the deals. So it's trying to figure out if like costs are a little bit elevated, as some of these things are coming in. And if we start looking over the next couple of quarters, should we start to see that management-related ENI expand as the scale picks up?

Eugene Donnelly
Senior Adviser

Hi, this is Gene. I think that is a reasonable expectation. When you look at the first quarter, you may be aware that we had a substantial restructuring of our private debt platform, the BDC, AINV. And there was some one-time cost that we incurred in the first quarter in connection with that. So I think if you adjust for that, roughly $3 million or $4 million, I think you'll see that there is that positive trajectory. And that should continue for the balance of the year.

Michael Roger Carrier
Deutsche Bank AG, Research Division

And then just last one on the distribution and the realization outlook and a commentary is helpful just in terms of a breakdown. But I think when you guys look at your portfolio and you think of what the options are and you mentioned some of the IPOs have been filed and then secondaries and then just the normal realizations from interest income. When you look at where your investments are because the performance has been very strong, like are you at a point where you are willing -- meaning are there investments getting to points where you're willing to make the exits? Or is this still a chunk of the portfolio where you feel like you're still maybe in the seventh inning where you think the actual potential is?

Marc Adam Spilker
Former Senior Advisor

Yes, I'll start by saying the obvious, which is we'll undertake to sell things when we think they're right to be sold, which is the most important thing. Having said that, we continue to say that the deal teams are very, very focused on realizations, both because we see sensible macro conditions. And at the idiosyncratic level, there are certain things that we think are ready. And dialogue, so there's lots of activity and there's some very, very good strategic dialogues that are in very, very -- that are very advanced. But that doesn't mean it will get across the line. Sometimes we get to advance stage and it breaks down. And sometimes, we get in advanced stage and it goes through. But there are a handful of situations that we're working on and it's a big focus.

Operator

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

M. Patrick Davitt
BofA Merrill Lynch, Research Division

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

Marc Adam Spilker
Former Senior Advisor

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

M. Patrick Davitt
BofA Merrill Lynch, Research Division

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

Marc Adam Spilker
Former Senior Advisor

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

M. Patrick Davitt
BofA Merrill Lynch, Research Division

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

Marc Adam Spilker
Former Senior Advisor

At this point, I'd say, for the most part, that capital is still sitting in total AUM and not yet in fee AUM. I'd say, we're not going to go through each quarter how much we've put to work with each specific fund and where it's been deployed. But just to give you the headline numbers of the $3 billion from TRS and the $600 million from this other strategic account, I'd say the vast majority of that is still uninvested. We only closed on TRS right before the end of the quarter and the other account was closed during the midst of the quarter. So the vast majority of that capital is still available to be put to work and I would say, nearly -- probably nearly $3.5 billion of that.

Operator

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

Jacob Troutman
Keefe, Bruyette, & Woods, Inc., Research Division

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

Eugene Donnelly
Senior Adviser

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

Jacob Troutman
Keefe, Bruyette, & Woods, Inc., Research Division

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

Eugene Donnelly
Senior Adviser

Is the question, what was our DNI?

Jacob Troutman
Keefe, Bruyette, & Woods, Inc., Research Division

Or the total gross distributable earnings. So if I think about it, the $0.25 x the 385 million fully diluted shares outstanding, that's about $96 million in distributions paid. Does that -- what kind of payout ratio does that $96 million represent?

Eugene Donnelly
Senior Adviser

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

Marc Adam Spilker
Former Senior Advisor

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

Operator

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

Alex Kramm
UBS Investment Bank, Research Division

Just a couple of follow-ups here. Most of the things have been answered. But in terms of the LP fundraising environment, I think you answered some of this earlier. But since one of your peers has been public and talked a lot about the small fund benefit, I'm just wondering what you're hearing from the LPs when it comes to appetite for maybe sector funds or more focused funds? I mean, obviously, you have different segments, in natural resources you have some specific funds, but are there any other things that you're thinking about or at least the appetite that you're hearing from the LPs?

Marc Adam Spilker
Former Senior Advisor

We haven't seen a big shift. I mean, we see a lot of appetite in places where we have expertise and we have capabilities. So it's less about changing appetite for sectors and all those kinds of things but the ongoing desire for returns. And if you're platform has the ability to deliver those returns, that's driving the dialogue. And given where we see the opportunities, we continue to talk about natural resources, we continue to talk about Europe and there's a lot and that's the majority of our dialogue. We also include opportunity in India and that's where we see a lot of the dialogue with our LPs. And we have not seen a big shift over the past few months on that.

Alex Kramm
UBS Investment Bank, Research Division

And then moving on to maybe your own M&A from a GP perspective, I don't think you've talked about this at all so far in the call. But obviously, with Stone Tower and Gulf Stream, you've been pretty active since the IPO. Do you still see a pretty healthy pipeline out there? And is it still mostly around credit? Or are there other platforms that are approaching and they're saying we could really benefit from you guys taking us to the next level and what do you think the timing could be? We see some more in 2012? Or what's the appetite?

Marc Adam Spilker
Former Senior Advisor

Yes, I'll just state the general principles, which is we have an ongoing -- we see big opportunities. We believe that we can grow our platform. And we'll do so organically or with acquisitions that make sense. The acquisitions have a high bar, and we've talked about this in the past, which is it needs to be on strategy, it needs to be financially sensible and there needs to be a culture that is consistent with the way we do things. And those are the elements that were really present in the 2 acquisitions that we made. Also, as I think most people could see, that consolidation is happening in the industry. And so there are many, many dialogues all over the place and we remain open to it. And then the last thing I'll say that we want to get our platform right. We want to integrate our 2 acquisitions well. And there's a high premium on getting those things well, culturally and from an expense point of view and from an efficiency point of view, and so we don't want to bite off more than we could chew. And so right now we're very focused on integration. And as we get through that and then we'll see where it goes. And so I don't see anything in the eminent pipeline but that could always change.

Alex Kramm
UBS Investment Bank, Research Division

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

Marc Adam Spilker
Former Senior Advisor

I think the opportunity is much larger. And this really speaks to the secular opportunity for Apollo, which is the way in which we do private equity and the way in which we do credit, unconstrained alternative returns that there's a lot of appetite institutionally, both big and small, and in retail to allocate more capital to those segments. So we look at our firm and we're quite proud of the growth and we're quite proud of our performance. But we still think of us as small relative to the overall size of the opportunity given the structural changes that are going on in the credit environment. And so what we want to be very focused on is execution risk of making sure we're building a platform that in a way that delivers the same kind of returns that we have historically and has plenty of room for growth on a go-forward basis in an efficient way.

And that I'll end. Thank you very much, everybody.

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